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ABSTRACT

This section of the 2002-2003 Federal Student Aid Handbook is intended for financial aid administrators and counselors who are helping students in the initial phases of the student aid process as they file the Free Application for Federal Student Aid (FAFSA), verify the information they submit, and make corrections and changes to FAFSA information. Chapters are: (1) "The Application Process: FAFSA to ISIR" (Individual Student Information Report); (2) "Filling Out the FAFSA"; (3) "Verification"; and (4) "Corrections, Updates, and Adjustments." Some changes from the previous year's application and verification process are highlighted. Chief among these is that the Renewal FAFSA is not mailed to students automatically. (SLD)

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Application and Verification Guide

2002-2003

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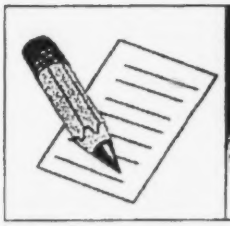

Errata

2002-2003 FSA Handbook

Application and Verification Guide

p. AVG-36: In the "Professional Judgment" heading under "Signature Requirements for Changes," the second line should read "through EDE or FAA Access on the Web" rather than "on SAR or through EDE."

p. AVG-13: Under questions 36-38, in the parenthetical phrase referring to the margin note, the question numbers were changed from 47-41 to 47-51.

p. AVG-20: Under the section for questions 50 and 51, the years in the parenthetical phrase should be 2002 and 2003.

p. AVG-31: Under the heading for Stepparent, the year was changed in both instances from 2000 to 2001.

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Federal Student Aid

Handbook

Application and Verification Guide

Student Loan Guide

Volume 1: Student Eligibility

Volume 2: Institutional Eligibility and Participation

Volume 3: Federal Pell Grant Program

Volume 4: Campus-Based Common Provisions

Volume 5: Perkins Loans

Volume 6: Federal Work-Study

Volume 7: FSEOG

Volume 8: Direct Loan and FFEL Programs

Volume 9: State Grant Programs

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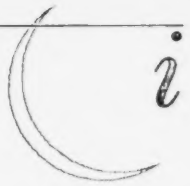
Introduction



This publication is intended for financial aid administrators and counselors who help students begin the student aid process—filing the Free Application for Federal Student Aid, verifying information, and making corrections and other changes to the information reported on the FAFSA.

CHANGES FOR 2002-2003

There are only minor changes to this volume, and some of those are changes in the application processing system:

- Schools will no longer have the option to request Renewal FAFSAs from the CPS for mailing to students. Instead, the CPS will automatically mail Renewal FAFSAs to eligible students.
- Schools will no longer have the option to request an electronic file of Renewal FAFSA data (known as the RAD file).
- Schools will receive an electronic file that lists all students who gave their school code and who are eligible for a Renewal FAFSA. This file will identify if the student received a paper Renewal FAFSA or a PIN mailer.

For more information on changes to the renewal application process, see Action Letter #1, GEN-01-10, August 2001.

New guidance has been given relating to dependency overrides and the treatment of box 14 items on IRS W-2 forms. See chapter 2 for more information.

The number of verification codes has been reduced to just three as a result of the Common Origination and Disbursement (COD) project; see chapter 3.

Note that when parents are mentioned it refers to the parents of dependent students. When "you" is used it refers to the primary audience of the Handbook—financial aid administrators at colleges.

Our office's name has changed from Student Financial Assistance to Federal Student Aid, so SFA has been been replaced throughout this volume with FSA.

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We appreciate any comments that you have regarding the Application/Verification Guide and all the volumes of the Federal Student Aid Handbook. We do add comments and clarifications based on your suggestions, so please contact us at sfaschoolspubs@ed.gov to let us know how to improve the Handbook so that it is always clear and authoritative.

The Application Process: FAFSA℠ to ISIR

CHAPTER 1

The law governing the FSA programs requires that applications be submitted on a form provided by the Department, and that no fee be charged for filing the form or for processing. The form is named the "Free Application for Federal Student Aid" (FAFSA) and its on-line version is named "FAFSA on the Web."

To be considered for federal student aid, a student must complete a FAFSA (unless he wants only a PLUS loan for his parents). The FAFSA collects financial and other information used to calculate the expected family contribution (EFC) and to confirm eligibility through computer matches with other agencies.

TYPES OF APPLICATIONS

Students can fill out a paper FAFSA or apply electronically through their school (Electronic Data Exchange) or on the Web (FAFSA on the Web). Students who have applied in previous years may be able to use a simplified form, the Renewal FAFSA. Renewal FAFSAs can be completed on paper or on the Web.

Paper FAFSA

Many students still use the paper FAFSA, which can be ordered from the Federal Student Aid Information Center at 1-800-4 FED AID (1-800-433-3243). You can also order bulk quantities of the FAFSA for your financial aid office to distribute on your campus or through outreach events. Go to **www.edpubs.org/bpos** to access our on-line ordering system.

Electronic Data Exchange (EDE)

If you submit the student's application information through EDE software, you should first have the student complete and sign a paper FAFSA. The aid office can then electronically enter the data from the paper FAFSA and submit it to the application processor through EDconnect software. For assistance with your EDconnect software, call 1-800-330-5947.

FAFSA on the Web

Your students can use FAFSA on the Web at **http://fafsa.ed.gov** to complete an application online and submit it directly to the Central Processing System (CPS). Students can also correct any of their previously submitted data except for SSN and date of birth. For help with FAFSA on the Web, a student can call 1-800-4-FED-AID.

Processing the Application

FAFSA Processor
→paper FAFSAs, SARs, and signature pages only

Central Processing System
→receives FAFSA data directly from FAFSA on the Web and EDExpress
→also receives data from FAFSA processor
→matches applicant data with INS, Social Security, Selective Service, Veterans Affairs, NSLDS
→calculates EFC
→mails SAR or e-mails link to online SAR to student and transmits ISIR to schools

Exception to FAFSA filing requirement

If a dependent student only wants to receive a parental PLUS loan, she doesn't have to complete a FAFSA (though many schools still require it), but one of her parents will need to complete a loan application and promissory note.

Free CPS/WAN technical support
1-800-330-5947
CPSWAN@ncs.com

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Advantages of electronic filing

We strongly recommend the electronic applications over the paper FAFSA because of the following benefits that all the electronic applications share:

- Faster processing than paper applications
- Fewer rejected application or other errors, because internal and end-of-entry data edits ensure that all required fields are completed and all conflicts are resolved prior to submission
- Skip logic, which helps "shorten" the form by allowing applicants to skip over questions that don't pertain to them
- Availability of online help

Who gets the PIN

Automatic recipients:

- Applicants in the renewal application database who filed on the Web or made corrections on the Web in 2001-2002
- Applicants in the renewal application database who reported in 2001-2002 that they were fifth year/other undergraduates, graduates, or professionals
- Applicants in 2001-2002 who successfully passed the SSN match with the Social Security Administration (SSA), provided a complete mailing address, and signed their FAFSA
- Applicants whose school requested that they get PINs instead of paper renewal FAFSAs

Anyone who doesn't get a PIN automatically can apply for one by going to the PIN webpage at **www.pin.ed.gov.**

Web sites for students

FAFSA on the Web
Corrections on the Web
Renewal FAFSA on the Web
Check status of application
Online SAR
http://fafsa.ed.gov

PIN website
http://pin.ed.gov

The PIN

The Personal Identification Number, along with other identifiers, gives students Internet access to their information in FSA systems. Applicants can use the PIN to:

- ✦ electronically sign a FAFSA on the Web, FAFSA Express, or Renewal FAFSA on the Web application
- ✦ correct the FAFSA on-line using Corrections on the Web
- ✦ see the EFC and other Student Aid Report information as soon as the FAFSA is processed (through "Student Access on the Web")
- ✦ review their personal financial aid history as maintained in the National Student Loan Data System (NSLDS)
- ✦ access expanded Direct Loan information and tools
- ✦ sign electronic promissory notes

Renewal FAFSA

Returning students should use a Renewal FAFSA instead of filling out another FAFSA—most of the data from the application the student filed the year before will already be filled in. The student can review each item, correct any that have changed, and provide new information for a small number of items. The Renewal FAFSA can be submitted by students on the Web or on paper.

Some students will automatically receive a **paper Renewal FAFSA** in the mail. For 2002-2003, the CPS mailed Renewal FAFSAs to students who applied for federal student aid in 2001-2002 and who met certain conditions—for instance, their SSNs and addresses were valid and they were not in default on a federal student loan. These students should have received Renewal FAFSAs in the mail some time after November 15, 2001. Students who receive a paper Renewal FAFSA can also reapply by using their PIN and other identifying information to access their **Renewal FAFSA on the Web**. Students without PINs can request one by going to the PIN web site.

Instead of a paper Renewal FAFSA, some students will automatically be sent a PIN by mail (see the margin note). PINs that are automatically sent in the mail will be forwarded if a student's forwarding address has been left with the post office. PINs requested by students will not be forwarded.

As noted in the introduction, the option for schools to request either paper or electronic Renewal FAFSAs for their students has been eliminated for 2002-2003.

FAFSA Express is also no longer available, except in a modified form for the TRIO Programs.

PROCESSING THE FAFSA

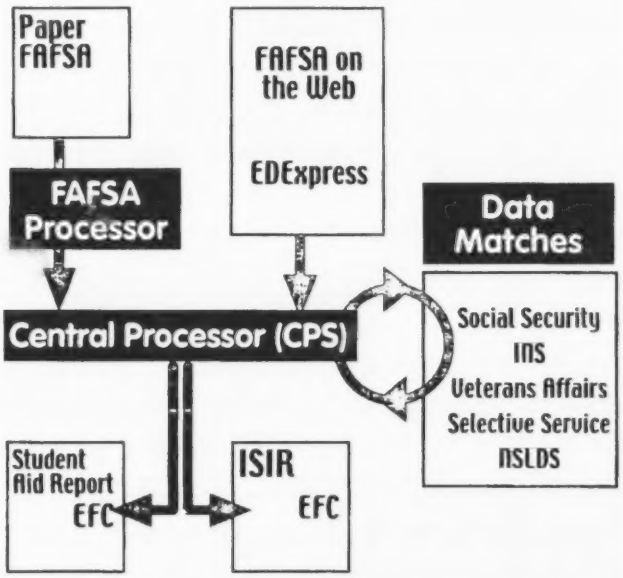
If the FAFSA was submitted on paper, it goes first to the FAFSA Processor for data entry and then to the Central Processing System (CPS). If the FAFSA was signed and submitted on the Web, it goes directly to the CPS. If an electronic signature was missing, the FAFSA goes to a signature hold file for 14 days pending receipt of a signature page or electronic signature. If some type of signature hasn't been received in that time, the application will be sent to the CPS for processing without signatures; see the next section on output documents.

The CPS uses the application data to calculate the EFC and match the student's data against several databases at other agencies, such as the Social Security Administration's databases, the Immigration and Naturalization Service's database of noncitizens, the Selective Service System registration database, and the Department of Veterans Affairs' database.

The CPS also checks the application to detect possible inconsistencies and mistakes. For instance, if a dependent student reported the parents' marital status as married but reported the household size as only "2," the edit checks would catch the inconsistency. Even when data is inconsistent, the CPS may be able to calculate an EFC based on assumptions. For applications that your school submits through EDE, you can anticipate certain assumptions and correct or override certain information on the student's first FAFSA submission. Students who submit applications using FAFSA on the Web or Renewal FAFSA on the Web can also correct or override some of the CPS edits.

Student rights with respect to eligibility matches

The Computer Matching and Privacy Protection Act of 1988 prohibits a school from suspending, terminating, or reducing FSA funds; making a final denial of FSA funds; or taking other adverse action against a student based on the results of an interagency data match unless the student has been notified and has had 30 days to respond to the notification. This law applies to all data matches performed by the CPS.



From FAFSA to SAR/ISIR

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Action Letter Citations

Renewal FAFSA: 2002-2003 Action Letter #1, August 2001 (GEN-01-10).

This letter is posted at **ifap.ed.gov**. Select "Current Publications by Title" and go to "Action Letters" for 2002-2003.

OUTPUT DOCUMENTS: THE SAR AND ISIR

After processing is complete, the CPS produces output documents or records that show the information the student originally provided, the EFC, the results of the eligibility matches, and information about inconsistencies identified through the CPS edits. If the CPS was unable to calculate the EFC, the output record will not show one.

There are two basic types of output documents: the *Institutional Student Information Record* (ISIR), which is sent electronically to the school, and the *Student Aid Report* (SAR), which is sent to the student.

You will only receive an ISIR for the student if your school is listed on her FAFSA, which has space for six schools. If your school is not listed on the FAFSA, you can request an ISIR for a student through EDE if you have the student's data release number (DRN). The DRN appears on the top right corner of the SAR and is also included on the ISIR in the "FAA Information Section" if your school originally entered the student's application data through EDE. The DRN and PIN are different: the former is the number that authorizes you access to the student's application information; the latter is the student's personal code and should be given to no one.

Reject Example

Sioned is living with her boyfriend. She reports on the FAFSA that she's single, but also reports her boyfriend's income as spouse's income. Her application is rejected; she receives a reject reason code of 11 and a comment explaining that she reported contradictory information. Sioned must submit a correction to blank out the spouse's income.

Schools are required to be able to receive ISIRs and cannot require students to submit SARs to the school in order to receive aid. However, a school **can** require the student to use a SAR to make corrections. If you don't have an ISIR for a student who has provided a SAR, you must use the SAR to award the student financial aid. You must also make sure that your school is added to the CPS record for the student (see chapter 4 of this guide).

Depending on how the student applied, the SAR will come in one of three ways. Students who apply with a paper FAFSA or Renewal FAFSA will receive a paper SAR. Students who apply electronically (by using EDE or FAFSA or Renewal FAFSA on the Web) and supply an e-mail address will receive an e-mail with a link to an online SAR that they can access by providing their SSN, date of birth, and first two letters of their last name. Students who apply electronically but don't provide an e-mail address will receive a SAR Information Acknowledgement, which has fewer and less detailed comments than the SAR and which can't be used for corrections as the SAR can. Students will receive a rejected paper SAR if a student or parent signature is missing.

The SAR and the ISIR will indicate any questionable results from the eligibility matches described above. For instance, if a student has defaulted on a federal student loan, the SAR and ISIR will note this in several places, including comments to the student and on the Financial Aid History page in the National Student Loan Data System or NSLDS. The student may still be eligible for federal aid, but you must resolve the situation before paying him.

For certain types of problems, the SAR and ISIR will show that the student's application has been rejected and no EFC has been

calculated. The SAR will tell the student how to solve the problem by providing more information or correcting errors. Reject codes are given in the FAA Information section, and a complete list of reject codes is provided in the guide for the 2002-2003 ISIRs that can be found at **http://ifap.ed.gov**.

DEADLINES

The application processing cycle lasts 18 months. For the 2002-2003 award year, application processing began January 2, 2002, and applications will be accepted until June 30, 2003.

The CPS processor must receive a student's electronic FAFSA transmission by June 30, 2003. **A paper FAFSA must be legible, and it must be mailed to the Federal Student Aid Programs address listed on the FAFSA in time for the processor to receive it by the deadline. There are no exceptions to these deadlines.** An electronic application record cannot be received before January 1, 2002, and if it is received after June 30, 2003 it will not be processed. A paper application signed or received before January 1, 2002 or after June 30, 2003 will be returned unprocessed with a letter of explanation.

In addition to the above dates, the following are anticipated deadlines for the 2002-2003 award year:

- Corrections on a paper SAR must be received by August 15, 2003.
- Corrections through EDE must be received and accepted by the CPS before 8:00 pm (eastern time) on August 27, 2003.
- Address and school changes through the Federal Student Aid Information Center (FSAIC) can be made through August 27, 2003.
- To give a Pell to a student, a school must have a valid output document while the student is still enrolled for the award year, but no later than September 2, 2003.
- For Pell recipients selected for verification, the school must have verification documents and a valid output document no later than 90 days after the last day of enrollment or September 2, 2003, whichever is earlier.

For the last two bulleted items, the date the institution receives the ISIR is considered to be the date the CPS processed the ISIR transaction. This process date is listed on the first page of the SAR and ISIR.

Resources for aid administrators

For questions about EDconnect, EDExpress, and Renewal FAFSAs, call CPS/WAN customer service: 1-800-330-5947

For bulk orders of FAFSAs, technical systems publications, and more, visit the "Bookstore" at the FSA Schools Portal: **http://sfa4schools.sfa.ed.gov**

Deadline Date Notice

Every year the Department publishes in the Federal Register a deadline notice that provides all the processing deadline dates. The deadline notice for the 2001-2002 award year was published on August 20, 2001. When the official deadline notice for the 2002-2003 award year is published, it will be available on the IFAP web site.

Filling Out the FAFSA℠

CHAPTER 2

Because the FAFSA is the first step in the financial aid process, it's important that the form be completed correctly. In this chapter we discuss some of the more difficult questions that arise when filling out the line items on the FAFSA. For more information on how these line items are used to calculate the expected family contribution, see Volume 1: Student Eligibility.

The FAFSA is organized as steps, with each step consisting of a group of related questions. In addition, the FAFSA contains three pages of instructions for the form and one page of worksheets for calculating additional amounts that are entered in Steps 2 and 4.

This chapter will not repeat the application instructions but will give guidance for counselors on some of the questions that have arisen. Students can get similar advice on filling out the FAFSA on our Web site for students at **http://www.ed.gov/studentaid**. Note that where parents are mentioned it refers to the parents of dependent students.

FAFSA Steps 1-7
Step One—General student info
Step Two—Student's financial data
Step Three— Dependency questions
Step Four— Parental financial data (dependent students only)
Step Five—Household size (independent students only)
Step Six—Schools and school codes
Step Seven—Signature(s)

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This section identifies the student and establishes his eligibility for aid from the FSA programs based on factors such as citizenship, educational level, and registration with Selective Service. (*Volume 1: Student Eligibility* explains these eligibility requirements.) Some of the questions are included to help the school package the student's aid award sooner and to eliminate the need for the student to fill out a separate state financial aid form.

Completing the FAFSA
Information for students about completing the FAFSA is posted on the Web at

www.ed.gov/prog_info/SFA/FAFSA

You may wish to add a link from pages that students use on your Web site to this reference information.

- **Questions 1-3** ask for the student's name. The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student's name and Social Security Number (SSN) with the Social Security Administration (SSA), the name here should match the name on the student's Social Security card. Otherwise, other data might not match and the student will be told there was an inconsistency during processing.

  The student should be very careful when entering his SSN; although it can be corrected after the SAR is produced, the number originally entered will always be used as the student's ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn't match the student's SSN. To solve

STEP 1

Questions 4-21
Student information

No SSN requirement for Pacific Island Residents

A student from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau is not required to have an SSN. He or she should submit the FAFSA to the following address (not to the one printed on the FAFSA envelope):

Federal Student Aid Programs
P.O. Box 4003
Mt. Vernon, Illinois 62864-8603

this problem the student can file a new original FAFSA using the correct SSN.

- **Questions 4-7** ask for the student's permanent mailing address. This is not a school address, with one exception: An incarcerated student must use his college's administrative address and include with the FAFSA a letter from the school indicating that he is incarcerated and is using the school's address.

- **Question 8** asks for the student's SSN. With the exception noted in the margin, a student must have an SSN to apply for federal financial aid. If the student submits a FAFSA without an SSN, the FAFSA will be returned to the student unprocessed. To get an SSN or to determine what the number is if a student's Social Security card has been lost, the student must contact the local Social Security Administration office. For more information, call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778).

- **Question 13** asks about U.S. citizenship and eligible noncitizenship. Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only a citizen or an eligible noncitizen is eligible for aid from the FSA programs; however, a student should still submit the FAFSA if she might be eligible for aid from institutional or private sources that do not require citizenship.

- **Questions 15 and 16** ask about the student's marital status "as of today"— the day the application is completed. Marital status cannot be projected.

- **Questions 17-21** ask whether the student plans to attend full time, three-quarter time, half time, less than half time, or not at all during upcoming terms. This information will help the college package the student's aid. A student who is applying to more than one school should provide the enrollment status and terms at the school he is most likely to attend. A student who is not sure should mark "Full time."

  A student attending a traditional semester-based school should fill out information for Fall 2002 and Spring 2003 (a winter term is not usually an option at such schools).

- **Questions 22 and 23** ask for the highest level of school completed by the student's father and mother. Some state agencies use this information to award grants and scholarships. "Father" and "mother" in these questions mean the student's birth parents or adoptive parents, but not stepparents or foster parents. Note that this definition of parents is unique to this question. All other questions use the definition given on page 7 of the FAFSA.

STEP 1

Questions 22-35
Student information

- **Questions 24-26** ask for the student's state and date of legal residence. This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes paid by that state's residents.

  It also indicates which state agency should receive the student's FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of state financial aid. However, residing in one state for four years will meet any state's criteria. Therefore, a person answering "Yes" to question 25 will likely meet the residency requirements of that state, while the state eligibility for a person answering "No" will depend on the date reported in question 26 and the specific state's requirements.

- **Question 30** asks for the student's grade level at the beginning of the 2002-03 school year. This question helps establish how much money the student may borrow under federal loan limits. Note that grade level is not based on the number of years the student has attended college, but on work completed towards the degree/certificate. For instance, a full-time student might attain 2nd-year grade level after one year of study, while a half-time student would take two years to reach that level.

- **Question 32** asks whether the student will have a first bachelor's degree before July 1, 2002, because eligibility for Federal Pell Grants and Federal Supplemental Educational Opportunity Grants (FSEOGs) is almost exclusively restricted to students who have not yet received bachelor's degrees.

- **Questions 33 and 34** ask the student to indicate what types of aid, in addition to grants, she is interested in receiving. This will help the school in packaging the student's award. If a student isn't sure about wanting loans or work-study, she should answer "Yes." That way the student will be considered for all types of aid that are available; at a later date, the student can decline any awarded aid she doesn't want. If the student doesn't want to take out a loan but the parents of the student want to get a PLUS loan, this question should be answered "Yes."

- **Question 35** asks whether the student has been convicted of any illegal drug offense. Students who have been convicted are not necessarily ineligible for aid. They should still complete and submit the FAFSA because even if they are ineligible for federal student aid, they may be eligible for state or institutional aid—many states and schools use the data supplied by the FAFSA to award their aid.

  Students who answer "Yes" to question 35 and who fill out a paper original FAFSA will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for

STEP 1

Question 35
Drug convictions

federal student aid. If the date the student regains eligibility for aid falls before July 1, 2002, the worksheet will instruct the student to change the response to a "1," indicating full eligibility for the award year. If the date of eligibility falls between July 1, 2002 and June 30, 2003, then the student will not be eligible for part of the award year and will need to change the response to a "2."

If the date of eligibility falls after June 30, 2003, then the student's response will remain a "3"—the student will not be eligible for federal aid during the award year unless he completes a qualified drug rehabilitation program, though he might be eligible for state or school aid. (See *Volume 1: Student Eligibility* for more information on drug convictions and eligibility.)

Students applying with a paper Renewal FAFSA who marked a "3" in the previous year will automatically receive a worksheet, and students using one of the electronic applications will be able to determine the correct response (1, 2, or 3) to the question before submitting their application.

A student who leaves FAFSA question 35 blank cannot be paid FSA funds until he provides that information by submitting a corrected SAR or ISIR.

Income and Assets Cites
Sec. 480(a), (b), (f), (g)

STEP TWO: STUDENT/SPOUSE INCOME AND ASSETS

Purpose: Questions 36-51 collect the student's (and spouse's) income and asset information. The FAFSA collects similar information about parents' income and assets in Step Four, so we will discuss how these questions affect the parents as well as the student and spouse. Income information is used along with living allowances based on household size to calculate the student's (and spouse's) portion of the EFC.

If the student or the student's parent wasn't married in 2001 but is married at the time the application is completed, the applicant also needs to provide income and asset information for the new spouse. If the student or the student's parent was married in 2001 but is now separated or divorced, or the spouse has died, the student or parent doesn't provide income and asset information for his spouse, even though that information may be on the 2001 tax forms.

The FAFSA asks for "base-year income" and taxes paid because studies have shown that income from the completed tax year is a good predictor of the family's financial situation for the current year. The base year for 2002-03 applicants is the 2001 tax year, so the FAFSA questions reference lines on the 2001 IRS tax forms. If 2001tax data is not available yet, best estimates of the data can be used on the application, but the student will have to later correct it if the 2001 tax return then differs from the estimates.

The FAFSA also collects information for certain investments and assets. Applicants only report the net worth of assets, instead of reporting the value and debt. They should report asset amounts **as of the date the application is completed.**

STEP 2

Questions 36-43 and 70-77 (Income)

- **Questions 36-38 (70-73 for parents)** ask the student if she has completed a 2001 tax return yet, which income tax return was filed or will be filed, and whether the student was eligible to file a 1040A or 1040EZ. ED's CPS uses this information in part to identify who is eligible for the simplified needs test (see margin note for questions 47-51, Assets).

- **INCOME: Questions 39-43 (74-77 for parents)** ask the student (and spouse) for the adjusted gross income (AGI) and number of exemptions. Dependent students report these items for their parents as well. Each question gives the line reference to the 2001 IRS tax forms. It will be easier for students to complete these income and tax-related questions if they've already completed their tax returns. The student can also estimate answers, but if the estimated information is wrong, the student must correct the FAFSA information when the tax return is filed. We've provided a worksheet to help students estimate their tax information.

  Students or parents who filed a joint return but are now divorced or separated won't be able to copy the information from the tax forms. Instead, they must figure out how much of the income and taxes paid is attributable to them. For more on this calculation, see "Using a Joint Return to Figure Individual AGI and Taxes Paid" in chapter 3.

  If the student, spouse, or parents were not required to fill out a tax return, the student should report any income earned from work in lines 42-43 (student and spouse) and/or lines 76-77 (parents). The W-2 form and other records should be used to determine these amounts. (Income earned from work is normally used to calculate an allowance for the additional costs incurred for working families—however, if no tax return was filed, the income earned from work will also be used in place of AGI.)

  For a fiscal year tax return, as opposed to a return for the calendar year, the applicant should report information from the fiscal year tax return that includes the greater number of months in 2001.

  If the student or parents filed a tax return using other than an IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the non-IRS form that correspond most closely to those on the IRS forms.

Fiscal Year Return Example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2000 includes eight months in 2001. The return they'll file for the fiscal year starting in September 2001 only includes four months in 2001. Therefore, they should use the information from the tax return for the fiscal year that started in September 2000.

Other Tax Forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars and the school should look at tax return line items that are comparable to the U.S. line items for verification.

Estimated AGI Worksheet

Use this worksheet to estimate 2001 Adjusted Gross Income (AGI) if you do not have a tax return.	*For question 39 Student/Spouse*	*For question 73 Parent(s)*
Wages, salaries, tips, etc.	$ _____ .00	$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
Add all of the numbers in the column	= _____ .00	= _____ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh Plans, one half of self-employment tax, self-employed health insurance deduction, interest penalty on early withdrawal of savings, and alimony paid)	— _____ .00	— _____ .00
TOTAL — Write this amount in question 39 or 73:	$ _____ .00	$ _____ .00

Verifying "0" income

Occasionally, an applicant will file a FAFSA reporting 0 income for the base year. This can occur when the applicant's family has tax writeoffs that produce a negative AGI or when the applicant neglected to report some types of untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification.

If the CPS does not select the student for verification, you may still choose to ask the applicant for further information regarding his or her means of support during the base year.

Any cash support or money paid on behalf of the student, other than support from a parent, must be reported on Worksheet B and thus counted as untaxed income. If the student subsisted solely on in-kind help from a friend or relative, for instance, using a room at an aunt's house and eating meals with her aunt's family, you may use professional judgment to adjust the untaxed income line item to include the estimated value of that in-kind support. Similarly, you may adjust the income line items to reflect other sources of income when the family's tax return has a zero or negative AGI.

Worksheets A, B, and C for questions 44-46 and 78-80

STEP 2

Worksheet A
Untaxed income

Untaxed items are grouped in the worksheets on the back of the FAFSA. The applicant doesn't submit the worksheets themselves, but reports the totals from the worksheets in FAFSA items 44-46 (student/spouse) and 78-80 (parents). The totals from Worksheets A and B are added to untaxed income; the totals from Worksheet C are subtracted from AGI.

- **Worksheet A (questions 44 and 78)** asks for several types of untaxed income and benefits that are typically associated with the neediest households; this worksheet helps aid offices to identify applicants who might have more financial need.

  Two of the items to be reported on this worksheet appear on the tax form, even though they are not taxed: the **Earned Income Credit (EIC)** and the **additional child tax credit.** If parents file a joint tax return and qualify for the EIC but then separate or divorce before the student files the FAFSA, the parent with whom the student lived longer in the last 12 months would determine his or her portion of the EIC by using the tax table or proportional distribution calculations. See "Using a joint return to figure individual AGI and taxes paid" in chapter 3.

  Some income that is not reported on the tax return should also be reported on Worksheet A:

  → **Welfare benefits, including Temporary Assistance for Needy Families (TANF).** TANF is the name for the state-administered plans that replaced Aid to Families with Dependent Children (AFDC or ADC). While rent subsidies for low-income housing are a form of welfare, they are **not** counted on the FAFSA.

  → **Untaxed Social Security benefits.** Worksheet A asks for "Social Security benefits received that were not taxed." Tax filers can determine this amount from the IRS form 1040 by subtracting the taxable portion of Social Security benefits from total Social Security benefits.

- **Worksheet B (questions 45 and 79)** collects information about other untaxed income and benefits. Some forms of income are reported on the tax form even though they aren't taxed. Again, a student who hasn't filed will have to estimate these amounts, and students or parents may need to separate information from a joint return.

The EIC and tax filing

The Department encourages students and parents of dependent students who are eligible for the EIC to file a tax return and claim the credit.

STEP 2

Worksheet B Untaxed income

Box 14 items on the W-2

The Department has reported that income listed in box 14 of the IRS's W-2 form may be disregarded. There are a few reasons for this: several of the items that the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain non-elective pension plan contributions, and non-elective contributions should not be counted in the need analysis; finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

There are exceptions though. For example, clergy parsonage allowances are frequently reported in box 14, though as stated above, employers aren't obliged to do that. Whether such allowances appear in box 14 or not, they should be included in the appropriate space on Worksheet B of the FAFSA. Also, the United States Postal Service (USPS), with approximately 850,000 employees, currently reports in box 14 voluntary employee contributions to the Thrift Savings Plan (TSP), which is a retirement plan for federal employees. These contributions should be included on Worksheet B as untaxed income. Other federal agencies put TSP contributions in the box for pension plan payments (box 13 on the 2000 W-2 and box 12 on the 2001 W-2), which therefore appear in the pension and savings blank on Worksheet B. The USPS is considering putting TSP contributions on the 2002 W-2 in the same box other federal agencies do.

If you find a box 14 item that belongs on Worksheet B, you can include it.

Worksheet B items that are answered from tax forms are:

→ **Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings).** This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.

→ **Deductible IRA or Keogh payments.** If the student, spouse, or parent can exclude from taxation payments to an IRA or Keogh, those payments are reported as untaxed income. These amounts are reported on the tax return. Payments into Education IRAs aren't deductible, so they shouldn't be included in this amount.

→ **Tax-exempt interest income.** Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on the tax return.

→ **Foreign income exclusion.** If a U.S. tax filer earns foreign income, part of that income might be excluded from taxable income (using a Form 2555 or 2555EZ). This income counts as untaxed income, so the FAFSA tells the applicant to include the amount from line 43 of Form 2555 or line 18 of Form 2555EZ in Worksheet B.

→ **Untaxed IRA distributions and pension payments.** Certain payments from IRAs or pensions are excluded from taxation. A tax filer determines how much of his IRA distribution or pension payment is taxable when he completes the tax return. The applicant needs to report these untaxed amounts on the FAFSA. Worksheet B explains how to determine the amount using the tax return.

→ **Credit for Federal tax on special fuels—nonfarmers only.** Certain tax filers can claim a tax credit for excise taxes they paid during the year on some kinds of fuels. IRS Form 4136 is used to claim this credit, and Worksheet B directs the applicant to copy information from that form.

Worksheet B income not reported on the tax return:

→ **Child support received for all children.**

→ **Housing, food, and other living allowances.** Some people, particularly clergy and military personnel, receive these kinds of allowances as compensation for their jobs. Money received to pay for rent should be reported. For the free use of a house or apartment, the rent (market value) of a comparable house or apartment should also be reported. Similarly, if the student

received free room and board in 2001 for a job that was not awarded as student financial aid, the student must report the value of the room and board as untaxed income. Do not include rent subsidies for low-income housing.

→ **Veterans' noneducation benefits.** This includes benefits such as the Death Pension or Dependency & Indemnity Compensation (DIC).

→ **Any other untaxed income not reported elsewhere.** This can include worker's compensation, VA Educational Work-Study allowances, interest income on Education IRAs, untaxed portions of Railroad Retirement Benefits, Black Lung Benefits, Refugee Assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government.

→ **Cash support.** The student reports any cash support he has received, except that a dependent student doesn't report support received from his parents. The student also must report any money paid to someone else on his or her behalf. For example, if a friend or relative gives the student grocery money, it's reported as untaxed income. If the friend or relative pays the student's electric bill or part of the student's rent, the student must report those payments as untaxed income. For example, if the student is living with a friend who pays the rent and the student's name is the only one on the lease, the rent paid is counted as cash support. Because the student's name is on the lease, he is responsible for the payments, and the friend is paying rent on his behalf. Note that the column for parents' information is marked out for this line item—only the student reports this information.

TIPS on reporting BENEFITS:

The applicant reports the actual amount of benefits received for the year in question, even if the amount is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Any benefits received by the head of household on behalf of anyone included in household size as reported on the FAFSA are income to the head of the household. However, if members of the household, such as an uncle or grandmother, receive benefits in their own names, those benefits are not reported as income of the head of household. Note that these people can't be included in household size if they receive benefits, in their own names, that amount to more than half of their support.

STEP 2

Worksheet B
Untaxed income

Dependent Benefits Example

Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel, his adoptive parent, on his behalf. Laurel has to report these benefits as her untaxed income when she completes her FAFSA, even though the benefits are for Paul.

Stanislaw's Uncle Yvor lives with him. Yvor receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn't report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor's support, and so he includes Yvor as a dependent in his household size. However, next year Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won't be providing more than half of Yvor's support and therefore won't be able to include Yvor in his household size any more.

STEP 2

Worksheet B Untaxed income

Cash support (reported on worksheet B)

Support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, and college costs paid for on the student's behalf.

Examples of in-kind income (not reported)

- Food Stamp Program
- Women, Infants, and Children Program (WIC)
- Food Distribution Program
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for Children
- Daycare provided by the Social Services Block Grant Programs (if the recipient receives **reimbursement** for childcare expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover Pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

Income and benefits not to be included on Worksheet B:

→ **Student aid** is taken into account in packaging aid (discussed in *Volume 1: Student Eligibility*) and shouldn't be counted as a benefit. Student financial aid includes tuition benefits a parent receives for a dependent (for example, from the parent's employer). Note that student aid that was included in the AGI is reported separately as an exclusion on Worksheet C so that it can be subtracted from income.

→ **Payments and services received from states for foster care or adoption assistance,** under Part A or Part E of Title IV of the Social Security Act.

→ **Per capita payments to Native Americans.** Per capita payments received in 2001 from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless they exceed $2,000. Any amount over that would be reported as untaxed income.

→ **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.

→ **Flexible spending arrangements.** These are employee benefit programs, sometimes also called "cafeteria plans." Neither contributions to nor payments from these programs should be counted as untaxed income.

→ **In-kind support.** In-kind support is other than money, such as free food or housing. If friends or relatives give the student food or allow the student to live with them rent-free, that support isn't included as untaxed income, though an FAA may use professional judgment to reduce the cost of attendance for independent students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays money that the student would otherwise pay, that money is counted as cash support. See examples in the margin.

■ **Worksheet C (questions 46 and 80)** collects information on items that are included in taxable income on the tax return but are excluded from income when calculating the EFC. The applicant doesn't subtract these from the AGI reported on the form but lists them separately on Worksheet C. The total from the worksheet is then reported on the FAFSA. The CPS subtracts that total from the AGI. Having the AGI from the tax return listed on the application makes verification easier.

Worksheet C items that can be found on tax forms are:

→ **Education tax credits.** These are the Hope and Lifetime Learning tax credits; the application tells students where this information is on the tax return.

→ **Taxable earnings for FWS or other need-based work programs.** The student may have received W-2s for these earnings. Otherwise, students will need to use any other records they received showing how much they earned.

→ **Student grant and scholarship aid.** A student includes the amount of grants and scholarships she received that exceeds her tuition, fees, books, and supplies as part of her taxable income. The tax filer is also supposed to write this amount separately on the tax form next to the line where wages and other earnings are reported. If the information was reported this way, the student can copy that amount from the tax form.

Other items, not from tax forms, to be reported in Worksheet C:

→ **National and Community Service (Americorps) awards.** The National and Community Service Trust Act of 1993 allows one to earn money to pay for college or repay Title IV student loans by filling unmet community needs. Living allowances, education awards, and interest accrual payments reported as income should be reported as an exclusion. Do not list on Worksheet C Americorps earnings or payments for health care or child care.

→ **Child-support payments.** Any child-support payments made during 2001 by the student, spouse, or parent whose income is reported on the FAFSA should be reported as an exclusion. However, don't include child support paid for a child included in the household size reported on the FAFSA.

■ **ASSETS: Questions 47-51 (student and spouse) and 81-83 (parents)** An asset is defined as property that is owned by the family and has an exchange value. A student does not report as assets possessions such as a car, a stereo, clothes, or furniture.

The FAFSA collects information about three types of assets in addition to cash, savings, and checking accounts: investments, businesses, and investment farms. Most assets are investments; some examples are college savings plans, real estate, trust funds, mutual funds, money-market funds, stocks, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it should be reported as an investment.

The law exempts certain assets from consideration for student aid purposes. Therefore, a family's **principal place of residence** is not reported as an asset, even if it is part of a family business. Neither is a family farm reported as an asset, only investment farms are (see the note in the margin on the next page).

STEP 2

Worksheet C Excluded income

Child Support Payments Example
Steven is married; he and his wife have one child. He's also paying child support for a child he had with another woman. This child doesn't live with Steven and his wife, but because he's providing over half the child's support (through his child support payments), he counts the child in his household size. Therefore, he doesn't report the amount of child support he pays in Worksheet C on his FAFSA. Steven's wife is also paying child support for a child of hers that doesn't live with her. She isn't providing over half the child's support, so the child isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays in Worksheet C on his FAFSA.

Rental Properties
Sometimes the student or parent will claim that rental properties represent a business. Generally, rental properties must be reported as real estate rather than as business assets. To be reported as a business, a rental property would have to be part of a formally recognized business. (Usually such a business would provide additional services, such as regular cleaning, linen, or maid service.)

Education savings accounts
Education IRAs have been appropriately renamed education savings accounts; they are considered an investment asset for the student beneficiary.

STEP 2

Questions 47-51 and 81-83 (Assets)

Family Farm
A farm (including equipment, livestock, etc.) isn't reported as an investment on the FAFSA if —
→ it is the principal place of residence for the applicant and the applicant's family, and
→ the applicant (or parents of a dependent applicant) materially participated in the farming operation.

Simplified Needs Test
The law provides a "simplified EFC" calculation for a student who meets certain income and tax-filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude family assets from the EFC calculation. However, all applicants should include asset information—even if it isn't taken into account when calculating the EFC, some states and schools require this information for their own aid programs.

The FAFSA asks for the **net worth** of an investment, which is the total current market value of the investment minus those debts that are related to the investment. If the net worth is negative, the student reports a net worth of zero on the application.

Similarly for **businesses and investment farms,** the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or investment farm was used as collateral.

Excluded assets—not reported on the FAFSA:

→ **Prepaid tuition plans.** As discussed on the next page, these plans allow units of tuition to be bought before the student attends college. Distributions from a prepaid tuition plan are applied to the beneficiary's higher education expenses and are included as part of the financial aid package. This is accomplished in one of two ways: either by reducing the student's cost of attendance by the amount of the distribution, or by including the amount of the distribution as a resource and estimated financial assistance. For the FAFSA, the investment value of prepaid tuition plans is not reported as an asset of either the holder or the beneficiary.

→ **Pensions and whole life insurance.** Pensions aren't counted as assets for application purposes. Of course, when the income from a pension is distributed to the beneficiary, the income must be reported. The cash value or built-up equity of a life insurance policy (often referred to as a whole-life policy) isn't reported as an asset. The Education IRA is counted as an asset for the student beneficiary because, despite its name, it isn't a retirement account.

→ **Excluded assets for Native American students.** The law explicitly excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 United States Code 1401, et seq.), the Alaska Native Claims Settlement Act (43 United States Code 1601, et seq.), or the Maine Indian Claims Settlement Act (25 United States Code 1721, et seq.).

☐ **Questions 50 and 51** ask about the student's veterans education benefits and for how many months they will be received. If students receive veterans education benefits, they must report the amount of monthly benefits they expect to receive during the school year (from July 1, 2002 through June 30, 2003). Benefits include a range of assistance from the U.S. Department of Veterans Affairs (VA), such as the Montgomery GI Bill benefits. Veterans education benefits are not used in the EFC calculation. Instead, the law requires that VA education benefits

be counted as a resource or estimated financial assistance when packaging campus-based aid or Stafford/PLUS loans. (See *Volume 1: Student Eligibility* for exceptions and further details on packaging FSA funds with VA educational benefits.)

STEP 2

Questions 47-51 and 81-83 (Assets)

Qualified state tuition plans

Some states sponsor plans that may also be known as qualified state tuition programs (QSTPs). Because these plans are covered in section 529 of the tax code, they may also be called section 529 plans. The IRS defines two types of QSTPs:

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn't change, even though tuition will likely increase before the beneficiary gets to use the tuition credits. Prepaid tuition plans are not counted as assets; see Excluded assets on the opposite page.

State-sponsored college savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary's college expenses. The buyer does not prepurchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a special savings account. The value of a college savings plan should be treated as an asset of the owner and not the beneficiary, because the owner can change the beneficiary at any time.

If a student receives a distribution from a state-sponsored college savings plan, the distribution will be incorporated into the student's adjusted gross income (AGI), and so will be treated as taxable income of the student, in keeping with Internal Revenue Service rules on treatment of this income.

Reporting "take-back" mortgages

In a "take-back" mortgage, the seller takes back a portion of the mortgage from the buyer and arranges for the buyer to repay that portion of the mortgage to the seller. For IRS purposes, the seller must report the interest portion of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if an amount is reported on this line of the tax return, the family probably has an asset that should be reported on the FAFSA. The value of the take-back mortgage is the value that the student should report. There would be no debt reported against this asset. For instance, if the family sold its house for $60,000 and had a take-back mortgage of $20,000, the family should report $20,000 as the net worth of the investment. This amount will decrease each year, depending on how much of the principal the buyer paid back that year. (This concept would also apply to other forms of seller financing of the sale of a home or other property.)

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application. As a general rule, the applicant must report the trust as an asset, even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on the use of the trust, then the student should report the present value of the trust as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it as an asset. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

The way in which the trust must be reported varies according to whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of divorce or separation, where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes, unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. Even if the interest accumulates in the trust and is not paid out during the year, the person who will receive the interest must report an asset value for the interest he or she will receive in the future. The trust officer can usually calculate the present value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay to receive the interest income that the student (or parent) will receive from the trust in the future.

Principal only

The student, spouse, or parent who will receive only the trust principal must report the present value of his or her right to the trust principal as an asset. For example, if the principal is $10,000 and it reverts to a dependent student's parents when the trust ends in 10 years but the student is receiving the interest earned from the trust, the student must report as a parental asset the present value of the parents' rights to the trust principal. The present value of the principal is the amount that a third person would pay at the present for the right to receive the principal 10 years from now (basically, the amount that one would have to deposit now to receive $10,000 in 10 years, including the accumulated interest). Again, the present value can be calculated by the trust officer.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until the trust ends, the beneficiary should report as an asset the present value of the funds (both interest and principal) that he or she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset:

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against asset

If there's a lien or imminent foreclosure against the asset, the asset would still be reported until the party holding the lien or making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEP THREE: DEPENDENCY STATUS

Purpose: Over the years, most institutional financial aid policies have been based on the premise that the family is the first source of the student's support. The law governing the FSA programs has followed the same principle. However, like traditional need analysis systems, the law provides several criteria where the student is automatically considered to be independent of his parents. Note that whether the student lives with her parents does not affect the student's dependency status.

If the student is considered to be a dependent of his parents, information on the income and assets of the parents must be collected on the financial aid application. The CPS will calculate a parental contribution and add it to the student's contribution.

In unusual cases, an aid administrator can determine that a student who doesn't meet the criteria should still be treated as an independent student. (See discussion of "Dependency overrides")

- **Question 53 (graduate or professional study).** The FAFSA asks the student if she will be working on a master's, doctorate, or graduate certificate program in the school year. A student who answers "Yes" to this question is a graduate or professional student and is independent for purposes of Title IV aid.

  Graduate and professional students aren't eligible for Pell Grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he or she can get a Pell Grant.

  Students should fill out the FAFSA based on their grade level at the start of the school year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question on the SAR or ISIR so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

- **Question 54 (married).** This question must be answered according to the student's marital status at the time the FAFSA is completed. If the student is married and a divorce is planned, the student must file as married. If the student is engaged to be married, the student must still file as unmarried, unless he or she waits until after the marriage to complete the FAFSA. Note that a student **cannot** update FAFSA information for changes in marital status after the application is filed.

  If the student has a relationship that meets the criteria for common-law marriage in his or her state, the student is considered to be married. A married student who is separated (not divorced) is considered married for determining dependency status.

STEP 3

Questions 52-54
Dependency status

Criteria for independence

For the 2002-2003 award year, a student is automatically independent if he or she meets any of the following criteria:

- The student was born before January 1, 1979.
- The student is a graduate or professional student.
- The student is married on or before the date he or she applies.
- The student is an orphan or is or was until 18 a ward/dependent of the court.
- The student is a veteran of the U.S. armed forces.
- The student has dependents other than a spouse.

(Cite: Sec. 480(d) of HEA)

Independent student with parental support example

Doug is a graduate student at Guerrero University. Because he's a graduate student, he's independent. However, he's still living with his parents, and has no income of his own. Although the FAA at Guerrero can't make Doug a dependent student, she decides to add an amount to his untaxed income as reported in Question 46 to account for the living expenses his parents are paying.

Student living with relatives example

Malia's father is dead, and her mother can't support her, so Malia's living with her grandmother. Her mother doesn't pay any money for her support. Malia doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Malia will have to provide information about her mother on the form, unless her school decides to do a dependency override.

STEP 3

Questions 52-58 Dependency status

Legal dependent examples

George is living with Emma. George isn't employed, and has no income, so Emma is completely supporting him. Emma plans to continue supporting George through the end of the award year, so she answers "Yes" to the legal dependent question when she fills out her FAFSA.

Laurel is going to college and is her cousin Paul's legal guardian. Paul receives Social Security benefits, but because he's a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul's support and count as income to Laurel. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the 2002-2003 award year, Laurel answers "Yes" to the legal guardian question. Note that if Paul didn't live with Laurel, she would have to answer "No" to the question.

Early exit cadets

Students who attend a service academy and are honorably discharged prior to commission are veterans for FSA purposes but aren't veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if the early exit cadet meets one of the other criteria for independence, then no resolution is required. If, however, an early exit cadet meets no other independence criteria, the school will have to perform a dependency override to make the student independent. Of course, the school must have appropriate documentation of the student's situation.

- **Questions 55-56 (children and legal dependents).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who will receive more than half their support from the student and other persons (except a spouse) who will both live with and receive more than half their support from the student. The same criteria apply to household size.

- **Question 57 (orphan or ward of the court).** The student is an **orphan** if both parents are dead and the student doesn't have an adoptive parent. Such a student is considered an orphan even if she has a legal guardian.

  A student qualifies as a **ward of the court** if the court has assumed custody of him. In some states the court may impose its authority over a juvenile who remains in the legal custody of his parents; such a student is not a ward of the court. Also, neither emancipation (when a child is released from control of a parent or a guardian) nor incarceration of a student qualify him as a ward of the court. A student declared a ward of the court before (and remaining so through) the end of the award year, regardless of his living arrangements, is considered an independent student for that award year. If he has applied as a dependent student, he must update his status (chapter 4).

- **Question 58 (veteran of the U.S. Armed Forces).** For FSA eligibility, veterans are those who have been in active service (which includes basic training) in the U.S. Army, Navy, Air Force, Marines or Coast Guard and were released under a condition other than "dishonorable". There is no minimum amount of time the student has to have served to be a veteran, but it does have to be active service.

  The application also tells students to answer "Yes" to the question about veteran status if they aren't yet a veteran but will be by June 30, 2003. Students who attended a **U.S. military academy** for at least one day and were released under conditions other than "dishonorable" count as veterans for Title IV purposes. Students currently attending a U.S. military academy and ROTC students are not veterans.

  Members of the **National Guard or Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not "dishonorable."

STEP 3

Questions 52-58
Dependency status

Who Counts as a Parent?

If the applicant answers "No" to questions 52-58, then she is dependent and must report parental information. In most cases it's clear who the parents are, but not always.

✔ **Adoptive parents and stepparents**

An adoptive parent is treated just like a biological parent. For purposes of reporting income in Step 4, a stepparent is considered the equivalent of a biological parent if the student is dependent on the biological parent. However, a stepparent cannot be the sole parent for determining dependency status—the student can only be a dependent of a biological or adoptive parent.

✕ **Foster parents, legal guardians, and other relatives**

A foster parent or a legal guardian is not treated as a parent for SFA purposes. If the student's parents are dead, the student is independent. Otherwise, a dependent student must report information about his or her parents even if he or she has a legal guardian, unless the school has a documented reason to perform a dependency override.

If a student is living with his or her grandparents or other relatives, the same principle applies. Unless the relatives have adopted the student, the income of the relatives should not be reported on the FAFSA as parental income. Any cash support from persons other than the student's parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student's financial resources and use professional judgment to include the support under the item for student's untaxed income (see chapter 4 on professional judgment).

Issues involving other sources of support for children and other household members

If the applicant is receiving support from other parties to raise the child, is the child still considered a legal dependent? In the case of government programs that provide benefits for dependent children, those benefits should be considered as part of the applicant's support to the child. For instance, Temporary Assistance to Needy Families (TANF) and other benefits provided to applicants on the basis of their having dependent children are considered income to the applicant. Therefore, an applicant may be considered independent when one of the primary means of support for the qualifying child is the benefits the applicant is receiving or will receive for the child. (The Department *does not* follow the IRS Guidelines, which state that such recipients cannot claim their children as legal dependents because the assistance program provides more than 50% of the children's support.)

If one or both of the applicant's parents are directly or indirectly providing more than 50% support in cash or other assistance to the applicant's child, then the applicant would answer "No" to the FAFSA question about legal dependents. "Indirect support" to the child includes support that a parent gives to the applicant on behalf of the child.

The situation is similar if the applicant is living with a parent and the parent is paying for most of the household expenses. In most cases, the applicant's parent would be considered the primary source of support to the applicant's child. Thus, the applicant would answer "No" to the question about legal dependents. However, there may be some cases where the applicant can demonstrate that she provides more than half of the child's support, even while living at home, in which case the applicant would be considered independent and answer "Yes" to the question about legal dependents.

STEP 3

Questions 52-58
Dependency status

Veterans match (for question 58)

The FAFSA processing system also performs a match with the Department of Veterans Affairs (VA) records to confirm a student's veteran status. If the student answers "Yes" to the question about veteran status, the Department will send the student's information to the VA for matching. The VA will see whether the student is a veteran, and send the results back to the CPS. The match results are provided by a match flag in the FAA Information Section of the output document.

Successful match

There won't be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran

If the VA reports that the student isn't a veteran, the CPS assumes that the answer to the veteran question is "No." Note that because the VA's definition of "veteran" for VA benefits is more stringent than FSA's definition, the student might still be eligible for financial aid. There will be a comment on the output document for the student explaining the problem. If the VA results are wrong, the student should contact a regional VA office to have the records corrected and get proper documentation. However, if the student answered "Yes" to one of the other dependency questions, he or she is an independent based on that question and can receive student aid without resolving the VA problem. If the student answered "No" to all the other dependency questions, he or she is treated like a dependent student until the VA records are updated. Once the records are updated, the student can submit a correction marking the answer to the veteran question as "Yes" to have the VA perform the match again. If the student has documentation (such as a DD214---the Certificate of Release or Discharge from Active Duty---with "Character of Service" as anything but "dishonorable") showing that he or she is a veteran, the school can do a dependency override to treat the student as independent and allow the student to receive aid before the problem with the VA database is resolved. Also, if a National Guardsman or a Reservist who served on active duty (for other than training) did not receive a DD 214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the Character of Service as anything but "dishonorable," the student will be considered a veteran for FSA purposes.

Not on database

If the student isn't listed on the VA database, the CPS assumes that the answer to the veteran question is "No." Again, there will be a comment explaining the problem on the output document. A student who answered "Yes" to one of the other dependency questions doesn't need to resolve the problem before receiving student aid, although he or she should have the VA correct its database if it's wrong. A student who answered "No" to the other dependency questions is treated like a dependent student until he or she resolves the problem with the VA. The student must either provide parental data or resolve the problem with the VA and submit a correction marking the answer to the veteran question as "Yes" to have his or her veteran status confirmed. As mentioned above, the school can also do a dependency override if the student provides documentation that he or she is a veteran.

Active duty

If the student is currently on active duty, he isn't a veteran yet. However, if the student's active duty status will end by June 30, 2003, he is counted as a veteran for purposes of dependency status. Because the student might be a veteran later in the year, the CPS doesn't assume that the answer to the veteran question is "No." A student who is already independent by one of the other independence criteria doesn't have to resolve this situation. Otherwise, the student must provide documentation to the school that he will be released from active duty by June 30, 2003 before the school can disburse aid.

Veteran Status Match

Result	*Comment number and text*	*Action needed*
Successful match. **Match Flag 1**	No comment.	No resolution required.
Dependent and record found on VA database but not a qualifying veteran. **Match Flag 2** **C Code**	162 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for purposes of receiving federal student aid for the 2002-2003 school year. If VA is correct, you must provide your parents' information (including signature) on this SAR if you have not already done so. If you believe you are or will be a qualifying veteran, contact a VA office to resolve this problem.	Resolution required. In this situation, CPS assumes No to the veteran status question. If the parents' data or signature were not provided, reject 15 or reject 2 would also appear on the SAR/ISIR. If the student believes the match results are wrong, the student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to Yes, which will generate a correction that will be sent to VA for rematching. While the student is resolving the discrepancy with the VA, the FAA may collect documentation from the student that clearly demonstrates he is a veteran. The student might provide the DD214 (military separation form) showing that "character of service" is other than "dishonorable." However, until the information is corrected in the VA database, the match results will not change. If the documentation confirms that the student is a veteran, the FAA may do a dependency override and then disburse aid to the student.
Independent and record found on VA database but not a qualifying veteran. **Match Flag 2**	163 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for the 2002-2003 school year. If VA is not correct, you should contact a VA office to resolve this problem.	No resolution required. The CPS assumes No to this question, however, the student qualifies for independent status based on the responses to other dependency status questions. The student may contact a regional VA office to have VA records updated. The student could then answer Yes to the veteran question, which will generate a correction that will be sent to the VA for rematching. Until the VA database is corrected, the match results will not change.
Dependent and record not found on VA database. **Match Flag 3** **C Code**	173 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for purposes of receiving federal student aid for the 2002-2003 school year. If VA is correct, you must provide your parents' information (including signature) on this SAR if you have not already done so. If you believe you are or will be a qualifying veteran, contact a VA office to resolve this problem.	Resolution required. The CPS assumes No to this question. If the parents' data or signature were not provided, reject 15 or reject 2 would also appear on the SAR/ISIR. If the match results are wrong, it's likely that the military branch or Department of Defense has not sent the data to the VA. The student should contact a regional VA office to have VA records updated. The student will then need to correct the veteran question to Yes so that his information will be rematched with the VA database. While the student is resolving the discrepancy with the VA, the FAA may collect documentation from the student that clearly demonstrates he is a veteran. The student might provide the DD214 showing that "character of service" is other than "dishonorable." If the documentation confirms that the student is a veteran, the FAA may do a dependency override and then disburse aid to the student.

Veteran Status Match (continued)

Result	*Comment number and text*	*Action needed*
Independent and record not found on VA database. **Match Flag 3**	174 The Department of Veterans Affairs (VA) did not confirm that you are or will be a qualifying veteran for the 2002-2003 school year. If VA is not correct, you should contact a VA office to resolve this problem.	No resolution required. The CPS assumes No to this question, but the student is independent for other reasons. It's likely that the military branch or Department of Defense has not sent the data to the VA. If the student is a veteran, he may contact a regional VA office to have VA records updated. The student could then answer Yes to the veteran question, which will generate a correction that will be sent to the VA for rematching.
Record found on VA database but applicant on active duty. **Match Flag 4 C Code**	180 The Department of Veterans Affairs (VA) has confirmed that you are currently serving in the U.S. Armed Forces. You indicated on your application that you will be released from active duty by June 30, 2003. You must provide documentation of this to your Financial Aid Administrator before you can receive federal student aid.	A student who is already independent by one of the other criteria doesn't have to resolve this problem. Otherwise, the student must provide documentation to the school that shows upcoming release orders from a military branch, typically in memorandum format or letter, stating intent to release. There is no requirement to reconfirm actual separation during the award year.

Dependency Overrides

The Higher Education Act allows an aid administrator to make dependency overrides on a **case-by-case** basis for students with unusual circumstances. If the administrator judges that an override is appropriate, he/she must document the unusual circumstances. **However, none of the conditions listed below, singly or in combination, qualify as unusual circumstances or merit a dependency override:**

1) Parents refuse to contribute to the student's education;
2) Parents are unwilling to provide information on the application or for verification;
3) Parents do not claim the student as a dependent for income tax purposes;
4) Student demonstrates total self-sufficiency.

Unusual circumstances do include an abusive family environment or abandonment by parents and may cause any of the above conditions. In such cases a dependency override might be warranted. See Chapter 4 for more information on other professional judgment changes.

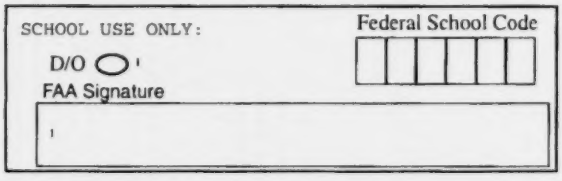
An aid administrator may override only from dependent to independent. However, if an independent student is receiving substantial support from her parents, a school may use professional judgment to adjust one or more of the FAFSA data elements, such as untaxed income. Also, an aid administrator can cancel an override approved at another school.

To override the student's dependent status on an initial application through EDE, the aid administrator should use the Dependency Override code of "1" (see the *Application Processing Desk Reference* or the *EDE Technical Reference* for more information).

To authorize a dependency override on a paper FAFSA, the aid administrator marks the oval for an override, labeled "D/O," in the "School Use Only" box, fills in the school's Federal School Code, and signs. A separate letter attached to the application in lieu of making the override is **not** acceptable.

If the student has already applied, the FAA can use EDE or, beginning in spring 2002, FAA Access on the Web to authorize or cancel an override; overrides are no longer possible on the SAR.

FAFSA School Use Only Box



STEP 3

Dependency Overrides

Dependency Overrides
HEA Sec. 480(d)(7)

STEP 4

Questions 59-83
Parent information

FSA and IRS household rules

The rules used for determining whether or not someone can be counted in the household for FSA purposes aren't the same as the IRS rules for determining household members or dependents. Whether a divorced or separated parent claims a child as a dependent on the tax form is irrelevant when deciding whose household the child belongs to for FSA purposes.

Dependent student household size example

Lydia is a dependent student. Her parents are married, so they are both included in the household size. Her brother Ron is 26 but is still being supported by their parents, so he is also included. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college, but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is 5.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven; his mother later remarried, and Meurig lived with his mother and stepfather. His stepfather didn't adopt him. His mother died in 1999, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

STEP FOUR (DEPENDENT STUDENTS ONLY)—PARENTS' INFORMATION

Purpose: Questions 59-69 collect information about the student's parents and their household. Questions 70-83 collect income and asset information for the parents. These questions are answered in the same way as for the student, so we have noted the equivalent items where they are discussed under Step 2.

- **Questions 60-63 (parents' name and SSN)** The FAFSA asks for the parents' social security numbers and last names in preparation for a future match with the IRS on AGI, taxes paid, number of exemptions claimed, and filing status. If the student doesn't report last name and SSN for at least one parent, the SAR and ISIR will contain a comment highlighting this. These are required data elements for the FAFSA; however, because the match is not yet in place, applicants who do not provide this information will still be eligible for financial aid. Aid administrators may encourage students to report this information but are not required to follow up with students if it's missing.

- **Question 64 (household size)** The size of the household determines the amount of the standard living allowance that is used as an offset to the family income when calculating the EFC. The following persons may be included in the household size of a dependent student's parents:

  → **The student and parents,** even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce.

  → **The student's children and siblings,** regardless of where they live, if they will receive more than half their support from the student's parent(s) from July 1, 2002 through June 30, 2003. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

  For the purpose of including children in the household size, the "support" test is used, rather than residency, because there may be situations in which a parent supports a child who does not live with him or her, especially in cases where the parent is divorced or separated. If the parent receives benefits (such as social security or AFDC payments) in the child's name, these benefits must be counted as parental support to the child.

  → **Other persons** who lived with and received more than half their support from the student's parent(s) at the time of application and will continue to do so throughout the award year.

Reporting information in cases of death, separation, divorce, and remarriage

If the parents of a student divorce or separate, a student must answer parental questions on the FAFSA as they apply to the surviving or responsible parent.

Surviving parent

If one, but not both, of the student's parents has died, the student will answer the parental questions about the surviving parent and won't report any financial information for the deceased parent on the FAFSA. If both the student's parents are dead when the student fills out the FAFSA, the student must answer "yes" to Question 58, making the student independent. Remember that an adoptive parent counts as a parent too, but a legal guardian doesn't. If the last surviving parent dies after the FAFSA has been filed, the student must update his or her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent is married, as of the date of application, to a student's biological parent whose information will be reported on the FAFSA or if the stepparent has legally adopted the student. **There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2001, must be reported even if the parent and stepparent were not married until after 2001.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the past year, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last time it was given.

Separation of the student's parents or the student and spouse

A couple doesn't have to be legally separated in order to be considered separated. The couple may consider themselves informally separated when one of the partners has left the household for an indefinite period of time. Usually a married couple that lives together can't be considered informally separated. However, in some states, a couple can be considered legally separated even if they still live together. If the couple's state allows this, and they are legally separated, then they are considered separated though they are still living together. For a dependent student, use the same rules as for divorce to determine which parent's information must be reported.

Common-law marriage

If a couple live together and have not been formally married but meet the criteria in their state for a common-law marriage, their status should be reported as married on the application. If the state doesn't consider their situation to be a common-law marriage, then they aren't married, and a dependent student should follow the rules for divorce to determine which parent's information should be reported. Check with the appropriate state agency concerning the definition of a common-law marriage.

STEP 5

Questions 84-85
Student household

Number in college cite
HEA Sec. 474(b)(3)

Death, separation, divorce cite
HEA Sec. 475(f)

Divorce example
Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his income on the form.

Independent student household size example
Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from him. Because Chavo lives with Eddy, he can be counted in the household size. Therefore, Eddy's household size is 2.

Having just turned 24, Chavo is also independent. Although he's living with Eddy, he's not providing any support to Eddy. Chavo's household size is 1.

- **Question 65 (number in college)** The EFC calculation accounts for the additional expenses of other students in the household. The student should **always** be included in the number in college. Others in the household are counted in the number in college if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school (one eligible for any of the SFA programs). Parents are excluded from the number in college.

- **Questions 66-69** The parents' state of residence and the older parent's age are used in the federal need analysis. Parents who do not live in the US should enter "FC" for Question 66.

- **Questions 70-83 (tax forms filed by parents, income and assets)** The criteria for reporting income, assets, and the tax forms filed are essentially the same for parents as for the student, so you should refer to the discussion in Step Two for information on how to fill out questions 70-83.

STEP FIVE (INDEPENDENT STUDENTS ONLY)—HOUSEHOLD SIZE & NUMBER IN COLLEGE

Purpose: Questions 84 and 85 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

- **Question 84 (student's household size).** The following persons are included in the household size of an independent student:

  → **The student and his or her spouse,** unless the spouse has died or is not living in the household because of separation or divorce.

  → **The student's children,** regardless of where they live, if they will receive more than half of their support from the student from July 1, 2002 through June 30, 2003. This includes the student's yet unborn children who will receive more than half their support from the student from birth to the end of the award year.

  → **Other persons** who lived with and received more than half their support from the student at the time of application and will continue to do so for the entire award year.

- **Question 85 (number in college)** The student should **always** be included in the number in college. Other members of the household are counted if they are or will be enrolled at least half time in a degree or certificate program during the award year at a Title IV-eligible school. The definition of half-time enrollment for this question must meet the federal requirements, even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.)

STEP SIX: SCHOOL INFORMATION

STEP 6

Questions 86-97
School information

Purpose: These questions collect information about which postsecondary schools the student wants to receive his or her FAFSA information. The student can list up to six schools, and ED will send the student's information to each school listed.

For each school, the student is asked to indicate whether he or she expects to live on campus, off campus, or with his or her parents. While this information is not used to calculate the student's EFC, it is useful to the schools listed in projecting the student's financial need because housing costs will be part of the cost of attendance.

If the student wants information sent to more than six schools, she can use her SAR to change the schools listed or go to Corrections on the Web. Chapter 4 describes how a student can add or change schools on the list. Note: ED's central processor will send data to no more than six schools at a time for one student. For example, if a student originally listed six schools on the application and then updated or corrected information on the SAR or Corrections on the Web and replaced all six schools with new schools, only the six newly listed schools would get the updated or corrected data.

For a college to receive a student's data, the student must list the college's federal school code or enter the college's complete name, address, city, and state. School codes are not provided in the FAFSA; they are in a separate publication, the *Federal School Code List.* ED sends this list to high schools, colleges, and public libraries each fall around the same time the FAFSAs are distributed. The federal school codes are also on the Internet at **http://fafsa.ed.gov**.

STEP 7

Questions 98-102 Signatures

STEP SEVEN: SIGNATURE REQUIREMENTS

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported on the form.

- **Questions 98-99** In addition to certifying that the data on the FAFSA is correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend the FSA award only on educational expenses and affirms that he is not in arrears on federal loans or grants. If the student is dependent, one parent whose information is reported on the FAFSA must also provide a signature.

- **Questions 100-102** The law requires that if anyone other than a student, the student's spouse, or the student's parents prepares the application, then the preparer must write in his or her name, the firm/company name (if applicable), the firm/company address, and either the firm/company's Employer Identification Number (EIN, as assigned by the IRS) or the preparer's SSN. The preparer must also sign the form.

  High school counselors, aid administrators, and others who help students with their applications by actually filling out line items on the form or dictating responses to items on the form are considered preparers. Preparers must complete this section even if they are not paid for their services.

Substitutes for a parent's signature

Although parental information must be provided for a dependent student, a high school counselor or a postsecondary school's aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States **and** cannot be contacted by normal means,

- the current address of the parents is not known, or

- the parents have been determined physically or mentally incapable of providing a signature.

The signature of a counselor or aid administrator serves as a mechanism to get the application through the processing system. The counselor or aid administrator must provide his or her title in parentheses next to his or her signature and briefly state the reason (only one reason is needed) why he or she is signing for the parents. The counselor or aid administrator assures a minimum level of credibility in the data submitted. However, the counselor or aid administrator does not assume any responsibility or liability in this process. If the aid administrator finds any inaccuracies in the information reported, he or she should direct the student to send the SAR through the normal correction process or should submit corrections through EDE.

Signatures for electronic applications

Electronic Data Exchange

If a student applies through EDE at your school, you must obtain the signatures on a completed paper FAFSA or on the "echo document" printed through EDE, and you must keep the signed document (original or imaged) in the school files even if the student doesn't receive federal student aid or doesn't attend your school.

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Both parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth along with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA. See Action Letter #7 (Feb. 2001) for more details.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("no student signature on an electronic application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student, but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an EFC for the student or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required signatures at the school, either on the SAR or a document that has the required certification statements (EDExpress allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN along with other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

For dependent students parents can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" (no parent signature) output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in chapter 4.

Signature Requirements: Application and Verification for all FSA programs

	Application (FAFSA, FAFSA on the Web, EDE, FAFSA Express)	*IRS Forms* 1040 or other form submitted for verification	*Verification Worksheet*
Student	Must sign statement that data are accurate (on paper FAFSA, echo document, or signature page; or by use of PIN)	Tax return must be signed by student (or spouse) or by the tax preparer (or preparer's stamp)	Must sign worksheet
Parent(s) (if student is dependent)	One parent must sign statement that data are accurate (on application, echo document, or signature page)	Tax return must be signed by one parent or by the tax preparer (or preparer's stamp)	One parent must sign
Aid Administrator	Must certify if overriding dependency status		

Signature Requirements for Changes *

	Changes via SAR or Corrections on the Web	*Changes submitted via EDE*	*Professional Judgment* on SAR or through EDE
Student	Must sign corrections statement on Part 2 of SAR: on the Web, the PIN serves as the student's signature.	School must have signed documentation	
Parent(s) (if student is dependent)	One parent must sign the corrections statement on Part 2 of the SAR; if parental data is changed on the Web, page must be printed and signed by parent.	School must have signed documentation	
Aid Administrator			Must certify for adjustments or dependency override

*These signature requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell Grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for campus-based aid and Stafford Loans).

Verification

CHAPTER 3

Because students sometimes make significant errors on their application, colleges have had procedures for verifying the reported information. The law includes a verification process as part of the FSA program requirements. The Department only requires that a portion of the FAFSA filers at your school be verified, as selected by the Central Processing System. However, you also have the authority to verify additional students.

The verification requirements explained in this chapter apply to applicants for most FSA programs. Verification isn't required if the student is only receiving PLUS or unsubsidized Stafford Loans since these loans are not based on the EFC. However, a student can't avoid the verification requirements by choosing to borrow an unsubsidized loan instead of a subsidized loan. If a student attempts to do this, the school is to continue with verification.

Required Verification Items:
1. Household size
2. Number in college
3. Adjusted Gross Income (AGI)
4. U.S. taxes paid
5. Certain types of untaxed income and benefits:
- →Social Security benefits
- →Child support
- →IRA/Keough deductions
- →Foreign income exclusion
- →Earned income credit
- →Interest on tax-free bonds

REQUIRED POLICIES

Your school must have written policies and procedures on the following verification issues:

- deadlines for students to submit documentation and consequences of the failure to meet those deadlines,
- method of notifying students of award changes resulting from verification,
- required correction procedures for students, and
- standard procedures for referring overpayment cases to the Department (see *Volume 1: Student Eligibility* for more information on handling overpayments).

Verification regulations
34 CFR 668, Subpart E
Required policies—34 CFR 668.53

Additionally, the school must give each applicant a written account of the following information:

- **Documentation requirements**—a clear explanation of the documentation needed to satisfy the verification requirements.
- **Student responsibilities**—an explanation of the student's responsibilities with respect to the verification requirements, including the deadlines for completing any actions required, the consequences of missing such deadlines, and required correction procedures.

Quality Assurance Program
Under the Title IV Quality Assurance (QA) Program, participating schools develop and implement a quality improvement approach to SFA program administration and delivery. QA schools are exempt from certain administrative and procedural requirements, including certain verification requirements. The QA Program provides QA schools with an alternative management approach to develop verification that fits their population. Currently, QA schools use a software tool to analyze the effectiveness of their institutional verification program. The QA Tool shows which application elements changed when verified and reveals the impact that those changes have on the EFC. Beginning in 2002-2003 this tool will be available to all schools. See the institutional eligibility volume for more information.

- **Notification methods**—how your school will notify a student if his or her award changes as a result of verification, and the time frame for such notification.

APPLICATIONS TO BE VERIFIED

Applications are selected for verification either by the CPS or by the school. Under certain circumstances, a selected application may be excluded from required verification (see "30% Verification Option" and "Verification Exclusions" later in this chapter).

The output document shows whether the student's application has been selected by the CPS. The verification flag, which is in the *Financial Aid Office Use Only* section along with the match flag results, will have a value of "y" if the application has been selected for verification. The CPS will print an asterisk next to the EFC to identify applications selected for verification, and the asterisk will refer applicants to a comment in the student section of page 1 that tells them they will be asked by their schools to provide copies of certain financial documents.

A school may select additional applications for verification. For applications a school selects, the school decides which items it wants to verify. The school can choose not to verify items that must be verified on CPS-selected applications and can also choose to verify items other than those required by the Department. However, all other verification requirements, such as deadlines and allowable interim disbursement rules, apply equally to all students who are being verified, regardless of whether the CPS or the school selected the application for verification.

If a school wants to learn about the outcome of its verification process, it can use the Quality Analysis Tool. For example, one of the reports will show what changes in student information affected student eligibility. See "Applying for and maintaining participation" in volume 2 of this handbook.

30% Verification option
34 CFR 668.54(a)(2)

30% Verification option

Generally, a school must verify all applications the CPS selects for verification. However, you don't have to verify more than 30% of the total number of aid applicants at your school, though you may choose to do so. Applications a school selects and those with conflicting information don't count toward the 30% level. If the number of selected applications is less than 30% of the school's total, the school must verify all selected applications.

To give schools flexibility, the Department allows them to define "applicant." For example, an applicant can be anyone who applies to the school (i.e., they need not be enrolled), anyone who is enrolled, or, even more narrowly, anyone enrolled who is also eligible to receive an aid award. Whatever definition your school uses, the students you count toward the 30% limit must meet that definition.

30% Verification Examples

Bennet College has 1,000 applicants for federal student aid. During processing, the CPS selected 475 of those students' applications for verification. Bennet also selects 100 other applications based on its own criteria. To meet the 30% level, Bennet only needs to verify 300 applications, not all 575 that are selected. However, the 100 Bennet selected don't count toward meeting the 30% requirement, so Bennet must verify at least 300 of the applications the CPS selected for verification.

Brust Conservatory has 1,000 applicants for federal student aid. During processing, the CPS selected 289 of those students' applications for verification. Brust must verify all 289 applications because that number isn't more than 30% of the total applicants. The school isn't required to verify more applications to reach the 30% level; the 30% verification option is not a quota.

Benoit Institute has 1,000 applicants for federal student aid. During processing, the CPS selected 300 of those students' applications for verification. Also, the school identified 40 additional applications as having conflicting information. Benoit must resolve the conflicting information for these 40 students. However, because the resolution of conflicting information is separate from verification, these 40 applications don't count toward the 30% level. Benoit must also verify all 300 applications that were selected for verification, because this number isn't more

ED has added a field called "verification tracking" on the ISIR to identify the priority of the criteria used to select applicants for verification. You will see values of A, B, or a number from 01 to 33 in this field. "A" has the highest priority, then B, then 01, 02, and so on to 33. Therefore, a student with a B or a 05 in this field has a greater potential for significant error than a student with a 25. If you use the 30% option, this verification tracking field will help you to choose applicants for verification who have potentially made the most significant errors on their FAFSA.

Selection after disbursement

If a student or school submits corrections, the student's application might then be selected for verification. In some cases, the student may already have been paid based on the previous unselected output document. Because the student was eligible for that disbursement when it was made, it doesn't need to be repaid if verification isn't completed. But you can't make subsequent disbursements until the student's application is verified.

Example: selection after disbursement

Owen is attending Guerrero University. His application isn't selected for verification, and he receives aid in the fall. In December, Owen submits an address change on his SAR. That transaction is selected for verification. The aid adminsistrator at Guerrero tells Owen he needs to submit verification documents if he wants his aid for the spring, but Owen doesn't turn in the documents. Owen doesn't have to repay the aid he got in the fall, but Guerrero cancels his aid package for the spring. If Owen does turn in the documents and complete verification before the year ends, Guerrero can give him the aid for which he is eligible in the spring.

Verification Exclusions

A selected application may be exempt from some or all of the verification requirements due to certain unusual circumstances. Except in the case of the student's death, however, none of these verification exclusions excuses the school from the requirement to resolve conflicting information.

→***Incarceration.*** A selected application does not have to be verified if the student is in jail or prison at the time of verification.

→***Recent immigrant.*** A selected application does not have to be verified if the student is an immigrant who arrived in the United States during calendar years 2002 or 2003.

Verification exceptions
In addition to unsubsidized Stafford Loans and PLUS Loans, verification is not required—
- for Stafford Loans (subsidized or unsubsidized) received for study at eligible foreign schools.
- for the Leveraging Educational Assistance Partnership (LEAP) Program (formerly the State Student Incentive Grant Program), unless the school is certain that a student's state grant contains federal funds.
- for the Robert C. Byrd Honors Scholarship Program.

Also note that schools participating in the Quality Assurance Program can develop verification procedures different than those specified in the FSA regulations.

Verification exclusions
34 CFR 668.54

Immigrant example
Hector arrives in the United States in February 2002, and begins attending Guerrero University in September 2002. His 2002-2003 application is selected for verification. Guerrero determines that it doesn't have to verify Hector's application because he arrived during the 2002 calendar year.

Spouse unavailable example
Ursula is attending Lem Community College, and her application is selected for verification. She provided her husband's information on the application, but now explains that her husband has recently moved out, and she can't locate him. Ursula also gives Lem some documents to show that she's tried to locate her husband. Lem determines that Ursula doesn't need to provide verification of her husband's tax and income information, but still needs to verify her own information.

→***Spouse unavailable.*** A school isn't required to verify spousal information (or to obtain the appropriate signature for verification purposes) if any of the following conditions apply:

- The spouse is deceased or mentally or physically incapacitated.
- The spouse is residing in a country other than the United States and can't be contacted by normal means.
- The spouse can't be located because his or her address is unknown, and the student can't obtain it.

You should document the basis for this exclusion in the student's file. This exclusion doesn't affect any other part of required verification; the selected application must still be verified according to all other requirements.

→***Parents unavailable.*** You don't have to verify a dependent student's application if any of the following conditions apply:

- The student's parents are deceased or mentally or physically incapacitated. (If both parents are dead, the student is an orphan and thus is an independent student. If the parents die after the student has applied, the student must update his or her dependency status, as discussed in chapter 4.)
- The parents are residing in a country other than the United States and can't be contacted by normal means.
- The parents can't be located because their address is unknown, and the student can't obtain it.

→***Death of the student.*** If you make an interim disbursement during the verification process, and the student dies before verification is completed, you don't have to continue verification to justify the first disbursement. In such a case, a school can't make any additional disbursements to any of the student's beneficiaries, except for FWS funds already earned. Also, you cannot originate or certify a Stafford Loan, or deliver proceeds from either one for the student's beneficiaries.

→***Applicant verified by another school.*** You don't have to verify the selected application of a student who completed verification for the current award year at another school before transferring. To document a student's eligibility for this exclusion, you must get a letter from the school that completed the verification. The letter must include:

- a statement that the student's application data have been verified,
- the transaction number of the verified application, **and**

- if relevant, the reasons why the school was not required to recalculate the student's EFC (for example, the application errors may have been within the allowable tolerance—see "Verification tolerance," page 55).

→***Pacific Island resident.*** You don't have to verify the selected application of a student who is either

- a legal resident of Guam, American Samoa, or the Commonwealth of the Northern Mariana Islands, or

- a citizen of the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau.

To qualify for this exclusion, a dependent student's parents must also be citizens of one of these former territories. As documentation, you should note the permanent mailing address in the student's file.

→***Not an aid recipient.*** You don't have to verify a student who won't receive FSA funds for reasons other than the student's failure to complete verification. This category includes students ineligible for aid from the FSA programs and those who withdraw without receiving aid.

REQUIRED VERIFICATION ITEMS

If the CPS selects an application for verification, you must verify five major data elements:

- household size,

- number enrolled in college,

- adjusted gross income (AGI),

- U.S. income tax paid, and

- certain untaxed income and benefits.

In addition to verifying these required application data items for CPS-selected students, you can choose to verify any other application items, requiring any reasonable documentation, in accordance with consistently applied institutional policies and procedures. You may decide which students must provide documentation for any additional data elements and what constitutes acceptable documentation.

General documentation requirements and the verification worksheets

The following sections describe the documentation that a student is required to provide for each data item. To help you collect most of the necessary documentation, this chapter includes the 2002-2003 Verification Worksheets developed by the Department. When a student completes a verification worksheet and

Required verification items
34 CFR 668.56(a)

attaches the appropriate tax forms or alternative documents, you will usually have enough information to complete the verification process. You may reproduce as many worksheets as you need (master copies are also available through EDExpress and the IFAP website at **ifap.ed.gov**).

Timing of signature
Any required signatures, such as signatures on worksheets or on copies of tax returns, must be collected at the time of verification, during the applicable award year. Signatures can't be collected after the verification deadline for that award year.

However, you're not required to use the verification worksheets. Your school may use its own worksheet or no worksheet at all. You may require other documentation in addition to or instead of a completed verification worksheet. The chart on the next page shows other forms of acceptable documentation for each required verification item.

If you require students to complete verification worksheets, you must provide the appropriate (dependent or independent) worksheets to the selected students. You may want to remind your students that they must submit the completed worksheet and copies of the relevant income tax returns or alternative documents to your financial aid office, not to the Department of Education.

When you receive the student's submission, you should make sure that all required worksheet sections are completed and appropriately signed and that the relevant tax returns or alternative documents are attached. As explained later in this section, copies (such as photocopies, faxes, digital images) of worksheets, tax returns, or other documentation are acceptable. Unless specifically noted in this chapter, a signature on a copy is as valid as an original signature (i.e., a handwritten, pen-and-ink, or "wet" signature). After checking the documentation against the student's application data, you may either disburse the student's award or make the necessary corrections and updates. (See "After documentation is complete," p.51.)

Household size

Household size documentation and exceptions
Student assistance general provisions
34 CFR 668.57(b)
34 CFR 668.56(a)(3), (b), (c)

The law states who is included in household size; see steps 4 and 5 in chapter 2. If the student completed a verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and, for dependent students, at least one of the parents) listing the names of the household members, their ages, and their relationship to the student.

You don't have to verify household size if any of the following apply:

- it's the same as reported and verified in the previous award year
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- for a dependent student, the household size reported for married parents is 3 (or 2, if the parent is single, divorced, separated, or widowed).

Acceptable Documentation

	Verification Worksheet & Tax Return(s)	*Other Documentation in lieu of Worksheet or Tax Return (see the text for details)*
Household Size	✓	Signed statement
Number Enrolled	✓	Signed statement and/or institutional certification
AGI & Taxes Paid	✓	IRS tax transcript, other signed IRS forms with tax data, Form W-2, Form 4868, or a signed statement.
Untaxed Income & Benefits	✓	Official agency documentation and/or signed statement

- the household size reported for a married independent student is 2 (or 1, if the student is single, divorced, separated, or widowed).

Number enrolled in college

If the student completes a verification worksheet, no further documentation for this item is required. Instead of the worksheet, you may accept a statement signed by the student (and at least one of the student's parents, for dependent students). The statement can be combined with the statement verifying household size and should include the names and ages of those enrolled and the names of the schools they plan to attend. If you still have reason to doubt the enrollment information reported, you should require the student to obtain documentation from the other students and schools listed. (If other students in the family haven't enrolled yet, documentation from the other schools may not be available.)

Number in college—documentation and exceptions
Student assistance general provisions
34 CFR 668.57(c)
34 CFR 668.56(a)(4), (b), (d)

You don't have to verify the number enrolled in college if any of the following conditions apply:

- the reported number enrolled is one (the student only).
- you receive the student's ISIR or SAR within 90 days after the date the application was signed.
- the family members the student lists are enrolled at least half time at your school, and you have confirmed their enrollment through your school's own records.

Tax documents: special situations and alternatives

There are certain situations, such as when the student files taxes electronically, or earned foreign income, when the school may need to do something other than examine a 1040, 1040A, or 1040EZ form.

Electronic filing (e-file)

The IRS *e-file* program comprises several electronic filing methods. For example, the taxfiler can go to an e-file provider who will send the return to the IRS or use taxfiling software on a home computer. The filer should always receive a paper copy of the return in some format. Software used on a home computer may produce a 1040PC, or may allow the taxfiler to print out a standard 1040, 1040A, or 1040EZ that contains the information that was filed electronically. Or the *e-file* provider might print out a copy of the return using its own format. Any of these paper copies of the return are acceptable documentation for verification purposes, as long as they are signed by at least one of the taxfilers. (When an electronic tax return is filed, the filer also submits IRS Form 8453. Form 8453 doesn't have enough information for verification purposes.)

Returns in the e-file provider's format might not contain every line item, showing instead only the data the taxfiler provided. For example, if Item 8a, "Taxable interest income," does not appear on such a return, that means the student reported no taxable interest income.

TeleFile

TeleFile (formerly called 1040TEL) allows 1040EZ filers to file a tax return over the phone. Filers complete a TeleFile Tax Record, call an IRS number, and enter the information over the telephone. The TeleFile Tax Record is acceptable documentation for verification purposes, provided it contains the filer's 10-digit IRS confirmation number in Line N and is signed by the filer. (There is no signature line—have the filer sign at the bottom.)

Nonfilers

An AGI figure won't be available for someone who isn't required to file a tax return. A nonfiler would instead report on the FAFSA income earned from work, which includes any income reported on the individual's W-2 forms *plus* any other earnings from work not reported on those forms. (Even if no taxes were paid on this income earned from work, it **should not** be reported as untaxed income on the FAFSA.)

A properly completed verification worksheet sufficiently documents income earned from work. No further documentation is required. If the student doesn't complete a verification worksheet, the school must require from each nonfiler a signed statement certifying his or her nonfiler status and listing the sources and amounts of income. The school can also accept copies of the W-2 forms.

Financial aid professionals are not expected to have special knowledge or expertise regarding the U.S. tax code. If someone whose data was required on the FAFSA submits a signed statement claiming non-filer status and you have reason to believe that person would have been required to file a U.S. tax return, this constitutes conflicting information and must be resolved. (For more information on conflicting information, see chapter 4.) For example, in such a case, you might require a letter from the IRS, a copy of the applicable tax provision, or other documentation supporting the claim to nonfiler status. **Conflicting information must be resolved before you can disburse federal student aid.**

Filing extensions

If any of the persons required to report information on the FAFSA will file but hadn't filed a tax return at the time of application, they would have used an estimated AGI on the FAFSA. At the time of verification, the necessary tax returns should have been filed and can be used for verification. If a return hasn't been filed by then and a filing extension was granted by the IRS, the school may accept as alternative documentation copies

of the W-2 forms, and, as proof that the IRS has granted a filing extension, either a copy of IRS Form 4868—*Application for Automatic Extension of Time to File U.S. Individual Income Tax Return* (automatically grants the taxpayer a four-month extension beyond the April 15 deadline) or a copy of the IRS approval of an extension beyond the automatic four-month extension.

In addition to supplying the above documentation, the student must submit a copy of the tax returns when filed. When you receive the completed tax returns, you must use them to re-verify the required data. A student who fails to submit a copy of the filed tax return or alternative documents before the documentation deadline is ineligible for FSA funds and is required to repay any aid disbursed. Regardless of whether the student repays the aid, your school is liable for the interim disbursement (see Interim Disbursements).

Fiscal year returns

For a fiscal year tax return, as opposed to a return for the calendar year, the student should report the AGI and U.S. income tax paid from the fiscal year tax return that includes the greater number of months in the base year (see chapter 2 for an example). Accordingly, you should use the tax return from that fiscal year for verification purposes.

Nonresident filers

1040NR is a special return filed by certain nonresidents, mostly individuals holding temporary visas (such as an F-1 or H-1). Such persons are neither permanent residents nor U.S. citizens. The 1040NR is acceptable documentation for verification purposes.

Foreign income

As noted in "Step 2" in chapter 2, information from non-IRS tax returns would be reported on the FAFSA, with the value of the foreign income and taxes reported in U.S. dollars, using the exchange rate at the time of application. For verification purposes, these returns would be considered equivalent to an IRS Form 1040. If the student (or the student's parents) earned foreign income but did not pay any taxes on that income, it should be reported as untaxed income.

If a tax return isn't available

If copies of the necessary tax returns are not available, the student must instead submit a copy of any IRS form that lists tax account information. A common form is the tax transcript. A student can call the IRS help line at 1-800-829-1040, wait to talk to a representative, and order a tax transcript. It might not have as much financial information as the tax return, so the student may have to provide additional documents to complete verification.

Any form that lists tax account information and provides the information needed for verification is acceptable. The form **must** be signed by the student unless the IRS sent the form directly to the school.

If the IRS can't provide a copy of the return or any form with tax account information, you can accept a copy of the W-2 for everyone whose income is listed on the FAFSA. If a filer is self-employed or if a W-2 is otherwise unavailable, you can accept a signed statement from the filer certifying that his or her income and other appropriate information is correct.

Citations: 34 CFR 668.57(a)(4)(i)
34 CFR 668.57(a)(2)
34 CFR 668.57(a)(4)(ii), (a)(5)

AGI and income tax documentation
34 CFR 668.57(a)

Tax return FAFSA questions
For students the tax return questions are 37 and 38 on the FAFSA. For parents the tax return questions are 71 and 72.

Adjusted Gross Income (AGI) and Income Tax Paid

You can usually verify AGI and U.S. income tax paid by getting a copy of the signed U.S. income tax return. The tax documents needed for verification may vary depending on the filing method used by the student, spouse, or parents—electronically (through e-file), over the telephone (through TeleFile), or using traditional paper tax forms. All documentation must contain the required signatures (or preparer's stamp or other official validation) and must contain all data necessary for verification. If all necessary data are not present, the student must provide additional documentation, as described in this section.

To verify AGI and taxes paid, you must first identify everyone whose financial data was reported on the FAFSA and which tax returns, if any, they filed. You must check the tax returns for anyone whose financial data was reported on the FAFSA: the student, the student's spouse, or the student's parents. Each person reported on the FAFSA which tax return they filed or that they were not required to file a tax return. The type of form reported on the FAFSA should match what the student and parents actually filed.

The AGI figures reported on the FAFSA should always match the AGI figures that appear on the student's tax return, unless the FAFSA amount has been adjusted from a joint return due to divorce, separation, or professional judgment (see "Using a joint return to figure individual AGI and taxes paid", p. 50). If the figures don't match, a correction may be needed, as discussed later in this chapter. For more information on how specific types and special categories of income should be reported on the FAFSA, see chapter 2.

The line item chart below shows the tax form line items for the most commonly reported items. This chart is a reference only; it is not an inclusive list of all the items the school must check on a tax return.

For verification purposes, you can accept a copy (such as a photocopy, fax, or digital image) of the original signed return filed with the IRS. If a fax, photocopy, or other acceptable copy was made of an unsigned return, the filer (or at least one of the filers of a joint return) must sign the copy. You can also accept a tax form that has been completed to duplicate the filed return; this duplicate must contain at least one filer's signature.

Instead of a return the filer has signed, you may accept a paper return on which the tax preparer has stamped, typed, or printed her name and SSN or EIN. You may also accept a copy of an IRS form with tax account information that is mailed directly to your school (otherwise at least one of the filers must sign the form) from the IRS. Documentation from electronic returns must be signed by the filer, as explained in the following section. In some cases you can waive the requirement for spouse information and signatures (see "Verification exclusions").

Untaxed Income and Benefits

The term "untaxed income" means any income excluded from federal income taxation under the IRS code. For an application selected for verification, you must verify up to six specific types of untaxed income and benefits:

- Social Security benefits,
- child support,
- IRA/Keogh deductions,
- foreign income exclusion,
- earned income credit, and
- interest on tax-free bonds.

Except for Social Security benefits and child support, the required items can be verified using the tax return or alternative tax documents. Nonfilers should submit a signed statement confirming that they did not file a tax return and listing the amount and specific sources of untaxed income and benefits by name.

In addition to these types of untaxed income and benefits, you must verify all other untaxed income reported on the U.S. individual income tax return (excluding schedules). Chapter 2 discusses the untaxed income and benefits that must be reported on the FAFSA.

You're not required to verify any untaxed income and benefits received from a federal, state, or local government agency on the basis of a financial need assessment. Further, "in-kind" income (see chapter 2) is not reported on the FAFSA and does not have to be verified.

Line Items

	1040	*1040A*	*1040EZ*
AGI	33	19	4
Income Tax Paid	47 plus 52	30 plus 34	11
Deductible IRA/SEP	23 and 29	16	
Earned Income Credit	61a	39a	9a
Tax-Exempt Interest Income	8b	8b	
Untaxed Portions of IRAs and Pensions (excludes rollovers)	15a minus 15b and 16a minus 16b	11a minus 11b and 12a minus 12b	

Using a joint return to figure individual AGI and taxes paid

If the filer of a joint return has become widowed, divorced, or separated since filing the return, it may be necessary for verification purposes to determine the individual's income and taxes paid using the joint return and the relevant IRS W-2 forms. (If a filer is self-employed or if a W-2 is not available, the school may accept a signed statement from the filer that certifies the base year AGI and U.S. taxes paid.)

Add up the income figures from the individual's W-2 forms to get the individual's income from the joint return. Any interest or business income earned on joint accounts or investments should be assessed at 50%. (The same procedure should be used to divide business or farm losses.) Also, if the AGI listed on the joint return was adjusted ("Adjustment to Income"), you should reduce the individual's AGI by the portion of the adjustment that applies solely to him or her. For example, if an adjustment was made for moving expenses (which applies to the couple jointly), only 50% of the adjustment amount can be applied against the individual's income. An AGI figure can be calculated for the individual filer, using a joint return; a signed statement from the filer, certifying that the data from the joint return were accurately assessed, is sufficient documentation for this method.

Use one of the following methods to figure the individual's taxes paid:

- **Tax Table (preferred method).** Using the IRS Tax Table or Tax Rate Schedule for the appropriate year, calculate the amount of tax that would have been paid if a separate return had been filed. Use the deduction and number of exemptions the individual could have claimed if he or she had filed a separate return. (If itemized deductions were taken, count only the portion of those deductions that could have been claimed on a separate tax return.)

- **Proportional Distribution.** Determine what percentage of the joint AGI was attributable to the individual and then assess the joint tax paid by that same percentage

Example 1: Calculating Individual AGI from Joint Return Example

Eddy's application is selected for verification. He and his wife filed a joint return for 2001 and have since separated. The AGI on Eddy's FAFSA matches the AGI on the 2001 tax return, which means it's wrong, because it includes his wife's income.

Eddy's W-2s show that his income for 2001 was $12,500, while the AGI on the tax return is $33,000. In addition to the income earned from work, the tax return also shows $100 in interest income. Also, Eddy received a scholarship, and reported $400 of the scholarship as taxable income. The aid administrator adds $50 of the interest income to Eddy's income (because it was interest on a joint savings account), and includes all of the taxable scholarship in his income. Therefore, the aid administrator determines that Eddy's income is $12,950, and submits a correction through EDE.

Example 2: Calculating Individual Taxes Paid from a Joint Return

The aid administrator determines that Eddy's part of the $33,000 AGI he and his wife reported is $12,950. Eddy and his wife claimed five exemptions on their tax return (themselves, two children, and Eddy's nephew). Eddy's wife has custody of the children, and will claim them as her dependents when she files her tax return for 2002. Eddy's nephew still lives with him. Therefore, Eddy would have had two exemptions (himself and his nephew), totaling $5,600. In the new situation, Eddy's filing status is "head of household" instead of "married." Therefore, his standard deduction is $6,450 (instead of the $7,350 for married filers). Eddy's income of $12,950 minus the $5,600 for exemptions and the $6,450 standard deduction results in $900 in taxable income.

The aid administrator uses the tax table to determine how much tax Eddy would have paid on this amount, taking into account any applicable credits reported on the original return. With a taxable income of $900, the amount of tax paid from the tax schedule would be $137.

To use the proportional distribution method instead, the aid administrator figures out what percentage of the joint AGI Eddy's income represents. The percentage is 39% (12,950 divided by 33,000 is .3924). The aid administrator then multiplies the income tax paid as reported on the tax return ($1,864 for this example) by this percentage. Therefore, Eddy's income tax paid would be $727 (.39 x $1,864).

✔ *Verifying untaxed Social Security benefits*

You're not required to verify Social Security benefits **unless** you have reason to believe that benefits were not reported or were reported incorrectly. If you believe verification is necessary, you can accept the following documentation:

- documentation from the Social Security Administration showing the total amount of benefits received by the student, the student's spouse, or a dependent student's parents, or
- a statement signed by the student (and spouse or parent) certifying that the amount of Social Security benefits reported on the application is correct.

Tip for verifying Social Security benefits

Be sure the student reports the total amount (not the monthly amount) of benefits received in the base year—including Supplemental Security Income and benefits received on behalf of dependent children. Also, be sure the benefits were not included in the AGI. Lastly, if the Social Security statement shows an amount deducted for Medicare, make sure that amount is included in the total benefits reported.

34 CFR 668.57(d)(2)

✔ *Verifying child support received*

You must verify child support if the student, student's spouse, or student's parents report receiving it, or if you have reason to believe it was received. Child support doesn't have to be verified if the amount reported is the same amount that was verified in the previous year.

A completed verification worksheet is sufficient to verify child support received. If you don't use the verification worksheet, you must require a statement confirming the amount of child support received for all children in the household. The student (and one parent, if the student is dependent) must sign this statement. If child support is paid through a government agency, a statement from that agency would also be acceptable. If you have reason to doubt the statement provided, you should request at least one of the following items:

Child support documentation

34 CFR 668.57(d)(3)

- a copy of the divorce decree or separation agreement showing the amount of child support to be provided,
- a signed statement from the parent who provided the support showing the amount of child support provided, or
- copies of the canceled checks or money order receipts.

Untaxed income and benefits documentation

34 CFR 668.57(d)

✔ *Verifying deductions for IRA and Keogh plans*

Deductible payments to IRA and Keogh plans can be verified using the tax return. The deducted amounts are reported on lines 23 and 29 of IRS Form 1040 or line 16 of IRS Form 1040A.

✔ *Verifying interest on tax-free bonds*

Interest on tax-free bonds can be verified using the tax return. Refer to line 8b of IRS Form 1040 or to line 8b of IRS Form 1040A.

✔ *Verifying foreign income excluded from U.S. taxation*

Excluded foreign income can be verified by using IRS Forms 2555 (line 43) or 2555EZ (line 18). Note that the final total for Form 2555 shouldn't be reported as untaxed income, because it contains other exclusions.

Verifying earned income credit (EIC)

Earned income credit is available to certain eligible workers and must be reported on the FAFSA and verified. The amount can be verified from line 61a of the 1040, line 39a of the 1040A, or line 9a of the 1040EZ.

Disbursing unsubsidized loans without verification

As already mentioned, verification isn't required for unsubsidized loans. Therefore, schools can originate, certify, and disburse unsubsidized loans regardless of a student's verification status.

COMPLETING THE PROCESS

If a student's application is selected for verification and she is to receive more than an unsubsidized or PLUS loan, she must complete the verification process or forfeit federal student aid eligibility. You have the authority to withhold disbursement of any FSA funds until the student completes the required verification. Adopting this policy substantially reduces the incidence of overpayments. You can, however, make an interim disbursement before verification is complete.

Interim disbursements

34 CFR 668.58

Interim Disbursements

As long as you have no reason to believe the application information is inaccurate, you can make an interim disbursement before verification is complete. The interim disbursement limitations as they apply to each program are listed below. Your school is liable for an interim disbursement if verification shows that the student received an overpayment or if the student fails to complete verification.

Pell, Perkins, FSEOG interim disbursement example

Steven's application is selected for verification. He's attending Brust Conservatory, which chooses to make interim disbursements. Steven's eligible for a Pell, and Brust also awards him a Perkins Loan. He isn't eligible for an FSEOG. Steven has already made some corrections because Brust discovered errors in his application, but he hasn't submitted all the verification documentation yet. Brust doesn't want to pay Steven until it receives his corrected output document. As long as Brust makes the payment before the first payment period ends, it can make an interim disbursement before Steven turns in all his verification paperwork. Otherwise, Brust will have to wait until Steven completes verification to make any disbursements.

- ***Pell Grant, Perkins, and FSEOG.*** You can make one disbursement from each of these programs for the student's first payment period. If you make an interim Pell disbursement, you report the payment with a "W" verification status code. See "Verification status codes" later in this chapter.

- ***Federal Work-Study.*** Before completing verification, you can employ a student under FWS for up to 60 *consecutive* days after the student enrolls (or in summer employment for up to 60 days), provided you have no conflicting documentation concerning the student. After 60 days, if verification has not been completed, you can't continue to employ the student under FWS. If you later discover that the student has been overawarded, you should attempt to adjust the student's other aid. Otherwise, you must reimburse the FWS Program from school funds. Except in the case of proven student fraud, a student can't be required to repay FWS wages earned. (See *Volume 6: Federal Work-Study Program.*)

- ***Stafford Loans.*** If you have no conflicting documentation, you can certify a Stafford Loan application (or originate a Direct Loan) for a student who hasn't completed the verification process. However, you can't disburse the Stafford Loan funds to the borrower. See *Volume 8: Direct Loan and FFEL Programs* for a detailed discussion of how to handle adjustments when the student's eligibility changes after the loan process is initiated,

and for limits on how long your school can hold loan proceeds before either disbursing them to the student or returning them to the lender.

After documentation is complete

When you've obtained all necessary verification documents from the student, you should compare that documentation to the information originally reported on the application. If the verification process shows that all the student's information is correct, and there are no outstanding issues or conflicting information, you may award aid and disburse aid for which the student is eligible.

If verification revealed errors or inconsistencies, the student may have to make corrections or update information (in certain limited cases). See chapter 4 for instructions on how to make corrections or to update information.

Verification tolerance

Verification can sometimes uncover minor errors that won't significantly affect the student's eligibility, so the regulations provide a tolerance for verification changes.

This tolerance is $400: if the difference between the incorrect and correct data for certain dollar items is more than $400, the information must be corrected. To calculate the difference, first add the original (incorrect) AGI and untaxed income amounts. From that sum subtract the original U.S. income tax paid to get the uncorrected total. Do the same for the correct values: add the correct AGI and untaxed income and subtract the correct U.S. income tax paid to get the corrected total. If the difference between the uncorrected total and the corrected total is $400 or less, the errors are within tolerance; you may award the student aid without submitting a correction or recalculating the EFC. Using the tolerance is optional—you can always have the student submit corrections for reprocessing.

However, there is no tolerance for errors in nondollar items. If the original application has errors in any nondollar items, such as household size, the student must make a correction.

Failure to submit documentation

A Pell applicant selected for verification must complete the process within deadlines published in the *Federal Register*. As of this writing, the deadline notice for 2002-2003 has not been published; however, we expect the deadline to be September 2, 2003 or no later than 90 days after the last day of the student's enrollment, whichever is earlier.

For Pell grants, verification is complete when the student has corrected any errors or has shown that the information is correct. In addition to all verifying documentation, your school must also have on file the final and valid ISIR or SAR showing the official EFC. If the student does not complete verification by the deadline, he forfeits Pell for the award year, so your school must repay funds already disbursed.

Items that must be updated

If the student is selected for verification, then household size and number in college must be updated to be correct at the time of verification. Dependency status must be updated if it changes during the award year (see chapter 4).

Tolerance example

Emma originally reported an AGI of $2,500, $300 in untaxed income, and $300 U.S. income tax paid. Verification shows that her AGI was actually $3,000, and she paid $400 in U.S. income tax.

Original: $2,500 (AGI) + $300 (untaxed income) - $300 (taxes paid) = $2,500 (uncorrected total)

Corrected: $3,000 (AGI) + $300 (untaxed income) - $400 (taxes paid) = $2,900 (corrected total)

Net Difference: $400 ($2,900-$2,500)

Because the net difference is within tolerance, the school can award Emma's aid based on what she originally reported, without requiring corrections or recalculation of the EFC.

Failure to submit documentation

Pell Grants—34 CFR 668.60(c)
C-B/Stafford—34 CFR 668.60(b)

Campus-Based and Stafford Loan applicants must complete verification within the deadline established by your aid office, though the final deadline for all FSA programs is the one published in the *Federal Register*. The student has completed verification when he has submitted all requested documentation to the school. You must also have on file an output document that shows the student's application data were processed through the CPS at least once, but the output document need not be final or signed by the student.

For the Campus-Based and Stafford Loan programs, if a student fails to provide the required documentation by the deadline, do not:

- disburse additional FSEOG or Federal Perkins Loan funds to the student (funds already disbursed must be repaid by your school),
- continue the student's employment in an FWS job,
- certify a Stafford Loan application or originate a Direct Loan for the student, or
- disburse Stafford Loan funds to the student.

Verification status codes

When you disburse a Pell award, you must report the student's verification status even if the student wasn't selected for verification.

V - You have verified the student. This includes students who were selected for verification by the CPS and those your school chose to verify based on its own criteria.

W - The student has been selected for verification by the CPS and your school has chosen to pay a first disbursement of Pell without documentation.

Blank - Report a blank if you have not performed verification because either the CPS did not select the student or you have already reached the 30% verification threshold. This also includes schools exempt from the verification regulations because they participate in the Quality Assurance Program.

U.S. Department of Education

2002-2003 Verification Worksheet

Federal Student Aid Programs

Dependent

FORM APPROVED
OMB NO. 1845-0041
EXP. DATE 12/31/2003

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your and your parent(s)' 2001 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your and your parent(s)' financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet—you and at least one parent.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on your SAR and send it back to the application processor.

Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).

A. Student Information

Last name _____ First name _____ M.I. _____

Social Security Number _____

Address (include apt. no.) _____

Date of birth _____

City _____ State _____ ZIP code _____

Phone number (include area code) _____

B. Family Information

List the people in your parents' household, include:

- yourself and your parent(s) (including stepparent) even if you don't live with your parents, and
- your parents' other children, even if they don't live with your parent(s), if (a) your parents provide more than half of their support from July 1, 2002 through June 30, 2003, or (b) the children would be required to provide parental information when applying for Federal Student Aid, and
- other people if they now live with your parents, and your parents provide more than half of their support and will continue to provide more than half of their support from July 1, 2002 through June 30, 2003.

Write the names of all household members. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half-time between July 1, 2002 and June 30, 2003, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Missy Jones (example)	*18*	*Sister*	*Central University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: U.S. Department of Education, Washington, DC 20202-5345. If you have comments or concerns regarding the status of your individual submission of this form, write directly to: Application and Pell Processing Systems Division, U.S. Department of Education, 400 Maryland Avenue, S.W., Washington, DC 20202-5345.

BEST COPY AVAILABLE

C. Student's Tax Forms and Income Information (all applicants) — Dependent

1. Check one box only. Tax returns include the 2001 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of the tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

☐ Check and attach signed tax return.

☐ Check and complete: signed tax return will be submitted to the school by _____(date).

☐ Check here if you will not file and are not required to file a 2001 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A&B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2001 Amount	Sources of Untaxed Income	2001 Amount
a. Child Support	$	d.	$
b. Social Security (non-taxed)	$	e.	$
c. Welfare (including TANF)	$	f.	$

3. If you did not file and are not required to file a 2001 Federal income tax return, list below your employer(s) and any income received in 2001 (use the W-2 form or other earnings statements if available).

Sources	2001 Amount
	$
	$
	$

D. Parent(s)' Tax Forms and Income Information

1. Check one box only. Tax returns include the 2001 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your parent(s) did not keep a copy of the tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.

☐ Check and attach signed tax return(s).

☐ Check and complete: signed tax return(s) will be submitted to the school by _____(date).

☐ Check here if your parent(s) will not file and are not required to file a 2001 U.S. Income Tax Return.

2. Funds received for child support and other untaxed income. (See worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2001 Amount	Sources of Untaxed Income	2001 Amount
a. Child Support	$	d.	$
b. Social Security (non-taxed)	$	e.	$
c. Welfare (including TANF)	$	f.	$

3. If your parent(s) did not file and are not required to file a 2001 Federal income tax return, list below your parent(s)' employer(s) and any income they received in 2001 (use the W-2 form or other earnings statements if available).

Sources	2001 Amount
	$
	$
	$

E. Sign this Worksheet

By signing this worksheet, we certify that all the information reported on it is complete and correct. At least one parent must sign.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____ _____

Student Date

_____ _____

Parent Date

Do not mail this worksheet to the Department of Education. Take it to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

U.S. Department of Education

2002-2003 Verification Worksheet

Federal Student Aid Programs

FORM APPROVED
OMB NO. 1845-0041
EXP. DATE 12/31/2003

Your application was selected for review in a process called "Verification." In this process, your school will be comparing information from your application with signed copies of your (and your spouse's, if you are married) 2001 Federal tax forms, or with W-2 forms or other financial documents. The law says we have the right to ask you for this information before awarding Federal aid. If there are differences between your application information and your financial documents, you may need to send in corrections on your Student Aid Report (SAR), or your school may send corrections electronically, to have your information reprocessed.

Complete this verification form and submit it to your financial aid administrator as soon as possible, so that your financial aid won't be delayed. Your financial aid administrator will help you.

What you should do

1. Collect your (and your spouse's) financial documents (signed Federal income tax forms, W-2 forms, etc.).
2. Talk to your financial aid administrator if you have questions about completing this worksheet.
3. Fill in and sign the worksheet.
4. Take the completed worksheet, tax forms, and any other documents your school needs to your financial aid administrator.
5. Your financial aid administrator will compare information on the documents. You may need to make corrections on your SAR and send it back to the application processor.

Your school must review the requested information, under the financial aid program rules (34 CFR, Part 668).

A. Student Information

Last name | First name | M.I. | Social Security Number

Address (include apt. no.) | Date of birth

City | State | ZIP code | Phone number (include area code)

B. Family Information

List the people in your household, include:

- yourself, and your spouse if you have one, and
- your children, if you will provide more than half of their support from July 1, 2002 through June 30, 2003, and
- other people if they now live with you, and you provide more than half of their support and will continue to provide more than half of their support from July 1, 2002 through June 30, 2003.

Write the names of all household members. Also write in the name of the college for any household member, excluding your parent(s), who will be attending college at least half-time between July 1, 2002 and June 30, 2003, and will be enrolled in a degree, diploma, or certificate program. If you need more space, attach a separate page.

Full Name	Age	Relationship	College
Martha Jones (example)	*24*	*Wife*	*City University*
		Self	

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0041. The time required to complete this information collection is estimated to average twelve minutes, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to: U.S. Department of Education, Washington, DC 20202-5345. If you have comments or concerns regarding the status of your individual submission of this form, write directly to: Application and Pell Processing Systems Division, U.S. Department of Education, 400 Maryland Avenue, S.W., Washington, DC 20202-5345.

BEST COPY AVAILABLE

C. Student's Tax Forms and Income Information (all applicants) — Independent

1. Check one box only. Tax returns include the 2001 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If you did not keep a copy of the tax return, request a copy from your tax preparer or a copy of an Internal Revenue Service form that lists tax account information.
   - ☐ Check and attach signed tax return.
   - ☐ Check and complete: signed tax return will be submitted to the school by _____(date).
   - ☐ Check if you will not file and are not required to file a 2001 U.S. Income Tax Return.
2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2001 Amount	Sources of Untaxed Income	2001 Amount
a. Child Support	$	d.	$
b. Social Security (non-taxed)	$	e.	$
c. Welfare (including TANF)	$	f.	$

3. If you did not file and are not required to file a 2001 Federal income tax return, list below your employer(s) and any income received in 2001 (use the W-2 form or other earnings statements if available).

Sources	2001 Amount
	$
	$
	$

D. Spouse's Tax Forms and Income Information (if student is married)

1. Check one box only. Tax returns include the 2001 IRS Form 1040, 1040A, 1040EZ, TeleFile Tax Record, a tax return from Puerto Rico or a foreign income tax return. If your spouse did not keep a copy of the tax return, request a copy from the tax preparer or a copy of an Internal Revenue Service form that lists tax account information.
   - ☐ Check if you and your spouse did or will file a joint return.
   - ☐ Check and attach signed tax return if your spouse filed a separate return.
   - ☐ Check and complete: signed tax return will be submitted to the school by _____(date).
   - ☐ Check if your spouse will not file and is not required to file a 2001 U.S. Income Tax Return.
2. Funds received for child support and other untaxed income. (See Worksheets A & B of the Free Application for Federal Student Aid)

Sources of Untaxed Income	2001 Amount	Sources of Untaxed Income	2001 Amount
a. Child Support	$	d.	$
b. Social Security (non-taxed)	$	e.	$
c. Welfare (including TANF)	$	f.	$

3. If your spouse did not file and is not required to file a 2001 Federal income tax return, list below your spouse's employer(s) and any income received in 2001 (use the W-2 form or other earnings statements if available).

Sources	2001 Amount
	$
	$
	$

E. Sign this Worksheet

By signing this worksheet, I (we) certify that all the information reported on it is complete and correct. If married, spouse's signature is optional.

WARNING: If you purposely give false or misleading information on this worksheet, you may be fined, be sentenced to jail, or both.

_____
Student — Date

_____
Spouse — Date

Do not mail this worksheet to the Department of Education. Take it to your Financial Aid Administrator at your school. Don't forget to sign your tax forms.

Corrections, Updates, and Adjustments

CHAPTER 4

There are several situations where the original application information may need to be changed: when errors need to be corrected; when dependency status, household size, or number in college must be updated; and when an aid administrator makes an adjustment based on professional judgment. This chapter discusses how to make these changes to application information.

Students and schools can correct items that were incorrectly reported on the original FAFSA submission, but because the FAFSA is considered to be a "snapshot" of the family's financial situation as of the date the application was signed, only a few answers from the FAFSA can be updated to reflect changes in the family's situation *after* the FAFSA was signed. As an aid administrator, you have the discretion to use your professional judgment to adjust the student's reported information to take into account special circumstances.

TYPES OF CHANGES

Corrections
→ Application errors

Updates
→ Changes to dependency status, household size, or number in college under certain conditions

Professional judgment⁂
→ Override dependency status
→ Adjust data elements

⁂ **Aid administrators only**

CORRECTING ERRORS

Errors can occur if the student submits the wrong information (electronically or on paper) or because the information that the student wrote on the FAFSA or SAR was not scanned or entered correctly at the processor. In general, the school must have correct data before it can pay the student. In some cases, this means that the student must submit corrections for reprocessing, either electronically or on the SAR. However, there are other cases where you can pay the student without waiting for corrections to be reprocessed—for instance, if the aid amount doesn't change or (for the Campus-Based and Stafford/PLUS programs) if you base the award on your recalculation of the EFC. For students selected for verification, there are additional situations where corrections aren't required (see chapter 3 of this publication).

Even if the EFC or the award amount doesn't appear to change, you must always require the student to submit corrections to the CPS if the Social Security number is wrong or if there were problems with the other application questions that are subject to data matches, such as the citizenship questions.

Regulations on corrections and updating
Corrections for Pell Grants
34 CFR 690.14
Verification and updating, interim disbursments, options for payment, etc.
668.55, 668.58-.61

Correction if misreported as graduate

Any student who reports on the FAFSA that he or she is a graduate student can't receive Pell funds. Therefore, a student who incorrectly reported that he or she is a graduate student must correct that information, even if there are no errors that affect the EFC.

Examples—errors not affecting EFC

Stanislaw reported $1,000 for cash, savings, and checking accounts, and also reported $1,000 for the net worth of investments. He reported no other assets. He actually should have reported $2,000 for the net worth of investments. However, because his asset protection allowance is $4,400, making the correction won't change his EFC at all. Therefore, he can receive aid from any of the programs without submitting a correction, based on the data he originally reported.

Eric reported an AGI of $20,000, but forgot to report untaxed income of $120. Eric's EFC was 846. The FAA at Edison College determines that making the correction would change Eric's EFC to 874. For an EFC of 846, the scheduled award is $2,900. It's also $2,900 for an EFC of 874, so Edison College can pay Eric's Pell without requiring him to make a correction. When Edison submits the origination record for Eric, it uses the original EFC of 846. (Edison will need to either recalculate or submit a correction for aid from the campus-based, Direct Loan, or FFEL programs; see "Options if correction decreases eligibility.")

Correction increases eligibility, Pell grants

34 CFR 668.59(b)(2)(ii)(A)

Options if error doesn't affect eligibility

If there would be no change to the ***Pell grant***, the student doesn't have to submit corrections for reprocessing unless something such as a data match item must be changed. When submitting payment information in such a case, you must be sure to use the original, incorrect EFC (see *Volume 3: Pell Grants*). The rule is similar for the ***Campus-Based and Stafford*** programs—you can award aid based on the original data if your recalculation shows the corrections would not change the student's EFC. Of course, for any program you can still require the student to make the corrections and submit them on a SAR or electronically for reprocessing.

Options if correction increases eligibility

For Pell Grants, if the scheduled award would increase, you can still use the original EFC and grant amount and not require the student to submit any corrections. But if you want to pay the student the increased amount–which is to the advantage of your school and the student–the corrections must be submitted to the CPS for reprocessing. If the student's application was selected for verification (by either the CPS or the school), you can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed ISIR/SAR, or you can wait until you receive the reprocessed EFC before you pay the student. If the student wasn't selected for verification, you don't have the option of making a first payment—you must wait until you receive the reprocessed EFC.

There's an important limitation when a student completes verification after the Pell deadline but within the 90-day grace period allowed for verification. In such cases, you *must always use the higher EFC*, even if it was the original and incorrect EFC.

For the Campus-Based and Stafford Loan programs, if your recalculation shows that the student's eligibility will increase, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS. Remember that your school will be liable for any overpayment if the recalculation is incorrect.

Options if correction decreases eligibility

If the student would be eligible for less aid based on the correct information, you can't use the incorrect EFC to award FSA aid.

For Pell Grants, if the scheduled award would decrease, the data must be corrected and submitted on a SAR or electronically for reprocessing. You can't make any Pell payments to the student until you receive the new output document.

For the Campus-Based and Stafford programs, when your recalculation of the EFC shows that the corrections would decrease the student's aid award, you can either pay the student based on your recalculation or require the student to submit a correction and use the new EFC from the CPS.

UPDATING

Generally, information that's correct as of the date the application was filed can't be changed. The student can't update income or asset information to reflect changes to his or her family's financial situation if those changes took place after the FAFSA was filed. For example, if the same student's family sold some stock after the student filed a FAFSA and spent the money on a nonreported asset such as a car, the student can't update her information to show a change in the family's assets. However, three items—household size, number in college, and dependency status—must be updated in certain circumstances.

Dependency status

A student must update his or her dependency status if it changes at any time during the award year (unless it changed because of a change in the student's marital status). This updating is required for dependency status whether or not the student was selected for verification. For the Federal Pell Grant Program, the updated information has to be submitted on a SAR or electronically for reprocessing. For the Campus-Based and Stafford/PLUS loan programs, you can recalculate the student's EFC based on the updated dependency status and use that recalculated EFC. (Remember that your school will be liable for any overpayment due to recalculation errors.)

Once you've originated a Direct Loan or certified a Federal Stafford Loan, the Direct Loan origination record or Federal Stafford Loan application can't be changed to reflect a change in dependency status. However, you can use the updated status and recalculated EFC to originate or certify additional loans if the student qualifies.

Household size and number in college

Unlike dependency status, household size or number in college **cannot** be updated unless the student is selected for verification. For students selected for verification, these items **must** be updated to be correct at the time of verification (unless the change is a result of a change in the student's marital status, in which case updating is not permitted).

For Pell Grants, the student doesn't have to submit updated information for reprocessing if the scheduled award will increase or remain the same. Instead, you can disburse Pell funds to the student using the original EFC. However, if you want to give the student the increased grant amount, the updated information must be submitted to the processor. You can make a first payment based on the original EFC, adjusting the second payment upon receipt of the reprocessed output document, or you can wait until you receive the reprocessed EFC before you pay the student. If the scheduled award will *decrease,* the updated information *must* be submitted to the processor. You can't make any payments until you have the new output document with the updated information.

For the Campus-Based and Stafford/PLUS programs, you can require the student to submit the updated information for the CPS to

Example: correction increases eligibility

Chris's EFC is 616. He correctly reported his household size of three, but incorrectly reported the number in college as one. The FAA at Benoit Institute determines that correcting the number in college to two would change Chris's EFC to 534. This change would increase his Pell scheduled award by $100. Benoit Institute can make Pell disbursements to Chris using the lower scheduled award, but can't use the higher amount until he sends in a correction and receives a new reprocessed output document. Benoit could also use the recalculated EFC for awarding under the Campus-Based, Direct Loan, or FFEL programs without any corrections being submitted.

Example: correction decreases eligibility

On the application, Chavo reported his $6,000 in income as taxes paid instead of income earned from work. Making the correction will increase Chavo's EFC, so his eligibility will be reduced. Because Chavo will still qualify for a Pell, the FAA at Sarven Technical Institute sends the correction to the CPS for recalculation. Chavo can't receive any Pell payments until Sarven receives the corrected ISIR. However, Sarven could recalculate his EFC and disburse campus-based aid, Direct Loans, or FFELs to Chavo before it receives the corrected data from the CPS.

Making corrections and updates

Corrections on the Web
www.fafsa.ed.gov

Electronic Data Exchange
through the school

Student Aid Report
paper corrections sent by mail

By phone
Change schools listed or student address (DRN required)
1-800-4 FED AID

recalculate the EFC, or you can recalculate the student's EFC yourself. (Remember that your school will be liable for any overpayment due to recalculation errors.)

Effect on previous disbursements

You may have made a disbursement to a student before his or her dependency status changed, or may have made an interim disbursement to a student selected for verification. If you made a disbursement to a student based on information that is updated later, you must use the updated information to determine the correct award, and adjust either the prior disbursement or future disbursements so that the student receives the correct amount.

HOW TO SUBMIT CORRECTIONS AND UPDATES

Corrections can be submitted on the SAR, on the Web, or through your school using EDE.

Using "Corrections on the Web"

Students who apply through FAFSA on the Web may correct any of their own data elements, except SSN and date of birth, by using Corrections on the Web (at **www.fafsa.ed.gov**). Any other student who has a PIN, including students who applied with a paper FAFSA, can also use Corrections on the Web. If dependent students change parental data, a parent must either sign electronically with her own PIN or print out and sign a signature page.

Submitting changes through EDE

Your school can make corrections and updates through EDE, even if the original application wasn't submitted through EDE at your school. If your school wasn't listed on the student's record, the student will have to give you the DRN printed on the SAR or SAR Information Acknowledgement so that you can get electronic access to the student's data. Also, you must list your institution in the next available institution field. If all six institution fields have been used, the student will have to tell you which of the original six should be replaced with your school's name and Federal School Code.

If you make a correction for a student through EDE, you must have signed documentation for the correction from the student and parent. This signed documentation can be signatures on Part 2 of the SAR, a signed copy of the correction to be sent to the processor, or signed verification documentation. You must collect this documentation before sending data to the processor.

If the student's corrections are made through EDE, the corrected data is processed by the CPS, and an ISIR will be returned to the school; the student will receive the one-page SAR Information Acknowledgement. You must collect signed documentation for electronic corrections *before* submitting them to the CPS. (See chapter 1 for more on signature requirements.)

Using the Student Aid Report (SAR) to make corrections

If a student applied by submitting a paper FAFSA, he may make corrections or updates on the SAR, sign it, and return it to the FAFSA processor at the address given at the end of the SAR. One parent must also sign if the student is dependent, even if the changes are only to student information.

If the student applied electronically through a school but would like to make corrections by mail, she can go to the FAFSA Web site or call the Federal Student Aid Information Center at 1-800-4 FED AID (1-800-433-3243) to have a SAR mailed to her. To request a duplicate SAR, the student must provide her name, Social Security number, and date of birth.

Adding schools and changing a student's address

A student can add schools or change her address by submitting the changes through EDE at your school, or through Corrections on the Web, as we've just discussed.

If the student has received a SAR, she can make the changes on it, but it's faster to call the Federal Student Aid Information Center at 1-800-4 FED AID to change the schools listed (the student will need to provide her DRN).

If the student doesn't want to wait for a duplicate SAR to arrive, she can send a signed, written request to the FAFSA processor to add the schools. If schools are added by written request, the processor will replace *all of the current schools* listed on the student's application file with the schools listed in the letter. Therefore, when sending a written request, the student should list *all* of the schools to which information should be sent, up to a total of six, including any schools previously listed on the FAFSA or SAR that the student still wants to receive information.

The FAFSA only has space for a student to list six schools that will receive the application data. If the student wants information sent to more than six schools, he or she can use any of the methods listed above to replace some or all of the original six schools with other schools. However, bear in mind that the CPS will send data to only six schools at a time for one student. For example, if the student originally listed six schools on the application and then used Corrections on the Web to replace two of the schools originally listed with two new schools, the two schools that were replaced would not receive an ISIR from this correction or any subsequent corrections.

Corrections by phone limited to processor errors

As we've discussed, a student with a DRN can change his address and school listings by calling the Federal Student Aid Information Center.

Most other corrections can't be made over the phone—they have to be made through Corrections on the Web, EDE, or on the SAR. There is only one exception to this rule, and that's when the information the student submitted on a paper FAFSA or SAR was not scanned or input correctly.

If a student contacts the Federal Student Aid Information Center and one of the counselors at the center can verify (by viewing the image file of the document) that an applicant's answer to an item was not correctly recorded by the FAFSA processor, the counselor can correct that error.

The correction will be transmitted to the CPS, a corrected ISIR will be available to the student's schools within 72 hours, and the student will receive a corrected SAR in the mail within 10 days. The student doesn't have to sign for this correction, because the student has already signed the original paper document that has the correct information.

Professional judgment

Sec. 479A(a) IN GENERAL—Nothing in this part shall be interpreted as limiting the authority of the financial aid administrator, on the the basis of adequate documentation, to make adjustments on a case-by-case basis to the cost of attendance or the values of the data items required to calculate the expected student or parent contribution (or both) to allow for treatment of an individual eligible applicant with special circumstances. However, this authority shall not be construed to permit aid administrators to deviate from the contributions expected in the absence of special circumstances. Special circumstances may include tuition expenses at an elementary or secondary school, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, the number of parents enrolled at least half-time in a degree, certificate, or other program leading to a recognized educational credential at an institution with a program participation agreeement under section 487, or other changes in a family's income, a family's assets or a student's status. Special circumstances shall be conditions that differentiate an individual student from a class of students rather than conditions that exist across a class of students. Adequate documentation for such adjustments shall substantiate such special circumstances of individual students. In addition, nothing in this title shall be interpreted as limiting the authority of the student financial aid administrator in such cases to request and use supplementary information about the financial status or personal circumstances of eligible applicants in selecting recipients and determining the amount of awards under this title. No student or parent shall be charged a fee for collecting, processing, or delivering such supplementary information.

PROFESSIONAL JUDGMENT

An aid administrator may use professional judgment, on a case-by-case basis only, to change a dependent student's status to independent (ch. 2) or to alter the data elements used to calculate the EFC. You can submit an adjustment based on your professional judgment without a signature from the parent or student.

The reason for the adjustment must be documented in the student's file, and it must relate to that student's special circumstances that differentiate the individual student (not to conditions that exist for a whole class of students). You can also use professional judgment to adjust the student's cost of attendance. You must resolve any inconsistent or conflicting information shown on the output document *before* making any adjustments. An aid administrator's decision regarding adjustments is final and cannot be appealed to the Department.

Because the statute states that nothing within it shall be construed as limiting the authority of aid administrators to make data adjustments for some situations, we do not provide guidance on what constitutes an appropriate adjustment. However, the most recent Reauthorization (1998) added some examples of special circumstances, such as elementary or secondary school tuition, medical or dental expenses not covered by insurance, unusually high child care costs, recent unemployment of a family member, or other changes in the family's income or assets. Use of professional judgment is neither limited to the situations mentioned nor required in those situations.

Another situation where you might want to consider the use of professional judgment involves Roth IRAs. When someone converts a regular IRA into a Roth IRA (which is done by transferring funds), the amount converted has to be reported as taxable income on the tax return. Therefore, the income reported on the FAFSA will be higher than it would without the Roth conversion, even though the family doesn't actually have additional income or assets available. You can use professional judgment to reduce the income and taxes paid to the amount that would have been reported if there was no Roth conversion, if you think the adjustment is warranted for a particular student. As with the specific special circumstances listed in the law, you're not required to make a professional judgment adjustment in this situation.

The law doesn't allow you to modify either the formula or the tables used in the EFC calculation; you can only change the cost of attendance or the values of specific data elements used in the calculation. In addition, you can't adjust data elements or the cost of attendance solely because you believe the tables and formula are generally not adequate or appropriate. The data elements that are adjusted must relate to the student's special circumstances. For example, if a family member is ill, you might modify the AGI to allow for lower earnings in the coming year or might adjust assets to indicate that family savings will be spent on medical expenses.

Professional judgment can't be used to waive general student eligibility requirements or to circumvent the intent of the law or regulations. For instance, you could not use professional judgment to change FSEOG selection criteria. Nor can you include post-enrollment activity expenses in the student's COA. (For example, professional licensing exam fees are not allowable costs.)

Occasionally aid administrators have made decisions contrary to the professional judgment provision's intent. These "unreasonable" judgments have included, for example, the reduction of EFCs based on recurring costs such as vacation expenses, tithing expenses, and standard living expenses (related to utilities, credit card expenses, childrens' allowances, and the like). Aid administrators must make "reasonable" decisions that support the intent of the provision. Your school is held accountable for all professional judgment decisions and for fully documenting each decision.

In making adjustments for unusual expenses, an aid administrator should keep in mind that the income protection allowance is already included in the EFC calculation to account for modest living expenses. You should consider whether the expense is already taken into account through the income protection allowance before making an adjustment. It is reasonable to assume that approximately 30% of the income protection allowance amount is for food, 22% for housing, 9% for transportation expenses, 16% for clothing and personal care, 11% for medical care, and 12% for other family consumption. The income protection allowance used for a particular student is provided as one of the intermediate values in the FAA Information Section of the output document (labeled as "IPA"). See *Volume 1: Student Eligibility* for tables listing income protection allowances.

If you use professional judgment to adjust a data element, you must use the resulting EFC consistently for all FSA funds awarded to that student. For example, if you adjust the EFC for purposes of awarding the student's Federal Pell Grant, that adjusted EFC must also be used to determine the student's eligibility for aid from the Campus-Based and Stafford loan programs.

How to report overrides through EDE

All FAA adjustments must be done electronically. To override dependency status in EDE, enter a dependency override code of "1." To cancel a dependency override that another school performed, change the dependency override code to "2."

Adjustment example

Kitty's mother had income earned from work of $25,000 in 2001 but is no longer employed. The FAA at Bennet College decides to adjust the AGI reported for Kitty's parents to take into account their reduced income. The FAA also reduces the income earned from work for Kitty's mother to zero.

IPA percentage example

In 2001 Allen had $2,073 in medical expenses that weren't covered by insurance. He's married and has two children, and he's the only member of his household in college, so his IPA is $19,630. Because Allen's expenses are less than the amount for medical expenses already included in the IPA, the aid administrator at Sarven Technical Institute decides not to make an adjustment to Allen's FAFSA information.

CONFLICTING INFORMATION

In addition to reviewing application and data match information provided by the CPS, a school must have an adequate internal system to identify conflicting information, regardless of the source, such as information from the admissions office as to whether the student has a high school diploma, or information from other offices regarding academic progress and enrollment status. The school is responsible for reconciling any conflicting information that it has, with one exception: If the student dies during the award year, the school isn't required to resolve conflicting information.

If your school has conflicting information concerning a student's eligibility, or you have any reason to believe a student's application information is incorrect, you **must** resolve such discrepancies before disbursing FSA funds. If you discover discrepancies *after* disbursing FSA funds, you must reconcile the conflicting information and require the student to repay any FSA funds for which he or she was ineligible, unless the student is no longer enrolled for the award year.

REFERRAL OF FRAUD CASES

If you suspect that a student, employee, or other individual has misreported information or altered documentation to increase student aid eligibility or to fraudulently obtain federal funds, you should report your suspicions and provide any evidence to the Office of Inspector General.

OIG Address and Phone Numbers

Regional Offices	*Telephone No.*
Boston, MA	(617) 223-9301
New York, NY	(617) 223-9301
Philadelphia, PA	(215) 656-6278
Pittsburgh, PA	(412) 395-6904
Atlanta, GA	(404) 562-6460
Chicago, IL	(312) 353-7891
Dallas, TX	(214) 880-3031
Kansas City, MO	(816) 880-4034
Long Beach, CA	(562) 980-4141
Seattle, WA	(206) 220-4469
San Juan, PR	(787) 766-6292
Washington, DC	(202) 205-5770

National Hotline

Inspector General's Hotline
Office of Inspector General
U.S. Department of Education
400 Maryland Avenue, SW
Washington, DC 20202-1510

1-800-MIS-USED
http://www.vais.net/~edoig/

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